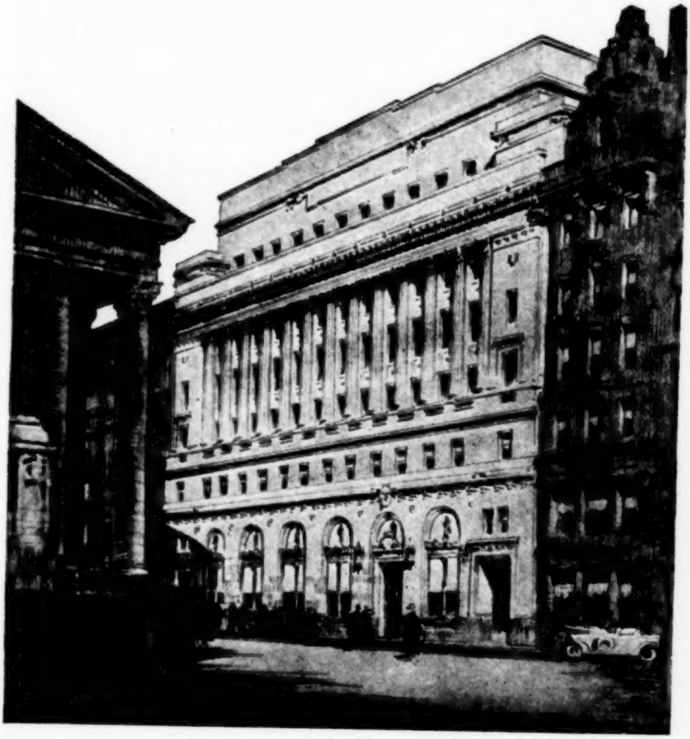

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The Bank publishes from time to time in this Review *signed articles by exponents of different theories on questions of public interest. The Bank is not necessarily in agreement with the views expressed in these articles. They are published in order to stimulate free discussion and full inquiry.*

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Editor of Lloyds Bank Review for many years and a Director of Lloyds Bank Ltd., 1919-1947.

Died 15th September, 1951.

Multis ille bonis flebilis occidit

1947 Comes Again

By T. W. Kent

SOME of the clocks have been put back five years. For the British people the winter now approaching seems likely to have much in common with that of 1946–47. The change in economic outlook during recent months has been dramatic. During 1950 production was still making rapid headway; inflationary pressure was, by comparison with most post-war periods, slight; until the autumn wages were almost constant; the gold reserve of the sterling area recovered rapidly throughout the year; the British balance of payments was, for the first time since the War, in substantial surplus; by the end of the year it was possible to suspend Marshall Aid to Britain.

The weakest link was, once again, coal; early this year a fuel crisis was only just avoided, in spite of a savage reduction in British coal exports and the import of some American coal. There were other signs of reviving inflation. An appreciable part of the improvement in the balance of payments during 1950 had been achieved by running down stocks of raw materials, and at the turn of the year there were serious fears that, in face of the vigorous American demand stimulated by rearmament, supplies of some materials could not be expanded quickly enough for production and employment to be maintained. The *Economic Survey* and the Budget showed, however, that as late as April the Government was still complacent—as post-war attitudes go—about the future. Although military expenditure had to be sharply increased and other expenditure was maintained, the Budget imposed few increases in taxation; it was, in the circumstances, remarkably mild if not plainly inadequate.

In the past five months growing difficulties have become apparent. Personal consumption has increased when the Government intended it to be slightly reduced. The demand for electricity has again outpaced the increase in generating capacity, so that load-shedding—with all its consequent industrial dislocation—has begun earlier in the season and is likely to be more intense than before. Coal stocks for the winter are once again disquietingly small, in spite of the continued low level of exports. Stocks of steel have fallen rapidly and are now little bigger than in 1948, when steel was still the narrowest bottleneck in industrial production; it is likely to become so

again unless the worse dislocation of a general fuel crisis is interposed. In the meantime, conditions of increasing labour scarcity in many industries and districts are reflected in a rate of unemployment abnormally low even by post-war standards. A second round of wage advances has quickly succeeded that of last winter and autumn, and threatens to accelerate as it goes on; it makes it almost certain that British prices will continue to rise for some time even if world raw material prices fall. Externally, the British balance of payments has moved sharply from surplus to a large deficit, while the sterling area's dollar surplus has disappeared and a critical loss of gold has become —especially with the interruption of Persian oil production— a distinct possibility for next year.

I
The Nature of the Crisis

The British economy is thus faced once more with difficulties at every point and with crises at several points. In each case there are special causes at work. It is always possible to blame the foreigner (Russian, American or Persian), the weather, the trade unions, profiteers or even the consumer, rather than the planners at the centre. But plainly such excuses as an assembly are unconvincing. So many simultaneous troubles cannot be unrelated. The variety of them points unwaveringly to a general cause. And it is, without doubt, the familiar cause. It is inflation. It is a failure to limit the effective claims on the economy to the total it can meet. It is, once again, the error of "trying to do too much" that was first admitted in 1947.

The turning-point this spring conforms to what has so far proved to be the general pattern of post-war economics: the pattern of crises recurring roughly every two years. The economic cycles of the inflationary age—the cycles of more and less inflation—seem to be much faster than the more familiar pattern of the trade cycle. The absence of the trade cycle has not meant economic stability. The kettle of inflation has been perpetually on the boil, and about every two years it has boiled over. Urgent efforts to reduce the heat have followed, and for a time have had a little success; but the reduction has never been intended to go far, and soon the temperature has crept up again. Internally, the crises have been debilitating but they have not so far been catastrophic. Thanks to foreign aid, it has been possible to let overseas transactions be the point at which the pressure of inflation has been most sharply, as well

as first, felt. The symptoms of the trade cycle have been replaced by biennial crises in the balance of payments.

The 1947 crisis had two aspects. Largely as a result of the "cheap money" inflation of 1946, and the industrial dislocation that it stimulated, the United Kingdom was heavily in deficit in its transactions with the rest of the world; at the same time, the sterling area, for which Britain is the banker, was heavily in deficit in its dollar payments. The 1949 crisis, which led to devaluation, was more limited. The problem was not so much that inflation in Britain had become more intense as that it had continued while much of the world, and particularly the United States, experienced its only—and very mild—recession since the War. Dollar prices fell while sterling prices still crept upwards. The consequence was essentially a crisis of confidence whose impact was naturally felt at the very weakest point: until devaluation, the sterling area incurred a heavy dollar deficit although British transactions with the rest of the world remained approximately in balance.

Correspondingly, the recovery of 1950 was more convincing than that of 1948. The sterling area earned a dollar surplus of \$805 millions and, with Marshall Aid still flowing in, the gold and dollar reserves increased by twice as much. At the same time, the British balance of payments showed a considerable surplus, of £229 millions. But the recovery has also been reversed correspondingly sharply. Indeed, all the longer-term progress from 1948 to 1950, which was only interrupted by the devaluation crisis, is threatened. The United Kingdom has returned to a heavy balance of payments deficit. The crisis of 1951–52 belongs to the same perilous category, with inflation leading to an external deficit, as that of 1946–47.

According to the best unofficial estimate that could be made, in advance of the publication of the autumn White Paper on the balance of payments, Britain incurred an external deficit of nearly £200 millions in the first half of the year. At an annual rate of some £400 millions, this represents a deterioration of about £600 millions compared with the surplus of £229 millions in 1950. The change is almost the most startling of all the dramatic turns in Britain's post-war economic experience. The great recovery of 1948 represented an improvement of £515 millions compared with the balance-of-payments position of the previous year.

The deficit in the second half of the year is likely to be at least as large as in the first half. It is true that early this summer the terms of trade were unusually adverse to

Britain. Even on an average for the half-year, import prices—reflecting the boom in raw material prices last winter—were 32 per cent. higher than the average for 1950. British export prices were only 14 per cent. higher. The volume of exports failed to expand to match this deterioration in the quantity of imports that each unit of exports would pay for. In volume, exports during the first six months of 1951 were only 3 per cent. above last year's average, while the volume of imports was 11 per cent. greater. In the next few months import prices—reflecting, after a lag, the break in commodity prices last spring—can be expected to fall, while export prices—reflecting the high prices paid for raw materials six months ago as well as recent sharp increases in wages—will continue to rise.

It must be remembered, however, that the balance-of-payments position deteriorated in the course of the half-year. The terms of trade could improve considerably on those of the early summer without making the deficit in the second half of the year smaller than in the first half. If the needs of industry and the defence programme are to be met, the volume of imports will have to remain comparatively high, while there are at present no signs of a rapid expansion in the volume of exports. On the whole, therefore, Britain's position is unlikely to improve during the current half-year. It may be worse. The magnitude of the task for 1952 depends on future commodity prices. They, in turn, depend chiefly on the level of American demand both for current purposes and for future stockpiling. If defence production in the United States really gets into its stride this winter, it is quite possible that commodity prices will return to the levels of last spring, and very unlikely that they will fall further.

A further fall would in any case be a mixed blessing for this country. The prices paid for imports into Britain are very closely related to the prices received by the primary-producing countries of the sterling area for their dollar-earning exports of such commodities as rubber, jute and wool. It is essential for a dollar balance that these prices should be high, that the United States' demand for raw materials should be fairly consistently strong. Then, and then only, is the country likely to earn the dollars it needs through the triangular transactions of multilateral trade; then, also, raw material prices will be high and the terms of trade unfavourable to Britain—unfavourable by comparison not only with pre-war days but also with the post-war terms of trade up to 1950, and possibly more unfavourable than those.

There are powerful reasons for thinking that in the next decade or two the terms of trade will in fact be unfavourable: the supply of primary products available for export to the industrial countries will expand less than the demand for them. There are the same reasons, but no others, for thinking that the British dollar problem may be manageable. Dear imports do not guarantee this, particularly if American Governments tenderly protect their own primary producers. But certainly cheap imports are the last thing that would help to make the double British problem—of trade in general and of dollar payments in particular—easily solved.

II

Sterling and Dollars

This argument is not, of course, a denial that import prices may for some time be lower than they were in the first half of 1951. To the extent that they fall, Britain's balance-of-payments deficit may become smaller. But, at the same time, the sterling area's dollar gap will tend to reopen. That has, indeed, already been the result of the turn in many commodity markets this spring. The British " Treasury view " seems to be that this is much more than a temporary pause, that a period of real dollar stringency has in fact returned. This is debatable; what is fairly certain is that in the next twelve months the sterling area will have more trouble in earning dollars than it did in 1950. This deterioration has occurred, moreover, when the flow of dollars from the funds of the European Recovery Programme into the British gold reserve has finally stopped; when the first instalments of interest and capital repayment on the American and Canadian loans to Britain have become due; and when the interruption to Persian oil production has involved the sterling area in extra dollar expenditure for oil imports—an expenditure that at the best must now be considerable and may at the worst be more than $300 millions a year. For all these reasons a new dollar crisis may fairly soon replace the general balance-of-payments deficit as the point of sharpest pressure on the British economy—as the point where the toe sticks uncomfortably and dangerously out of the shoe.

If, on the other hand, the prices of sterling commodities boom again, the general deficit will continue and probably increase; and it will therefore in time create, as a subsidiary to itself, another type of dollar crisis. The deficit is being met by incurring fresh short-term debts, mainly to other members of the sterling area. That is to say, the sterling balances are being increased once more and these extra British liabilities

are not at present being matched by extra assets in the form of a rising gold and dollar reserve. From the point of view of the countries that own them, the additional balances—over and above their existing large holdings—are not reserves to be held on to indefinitely. They represent simply deferred expenditure, and the deferment may not be for long. For the balances to be spent in sterling, this country will have to become capable again of providing a surplus of exports over imports. That appears to be a distant prospect. It is an open question how long many members of the sterling area will remain willing to keep their balances unspent and even to extend fresh credit to Britain. There have lately been signs of restiveness among some members. If they cannot get what they want in Britain, there will certainly sooner or later be demands for dollars instead.

Such a conversion of sterling balances, carried out on any scale, would recreate the dollar problem even if American imports from the sterling area were as high as in 1950. It would put a severe strain on the sterling area mechanism. From 1946 to 1949, it is true, the sterling area survived acute difficulties in spite of the United Kingdom's inability to supply its partners with all the goods on which they wished to spend their accumulated sterling. But at that time the rest of the sterling area, as well as Britain, was incurring a dollar deficit; its members had every interest in maintaining their claims, however severely rationed, on the central reserve that was in effect fed by American loans and grants to Britain. What was demonstrated then was the coherence of penury. The requirements for keeping the sterling area together in normal circumstances, with its primary producers earning more dollars than they spend, are different. They will remain willing to send their surplus dollars to London, in exchange for sterling, only if they can buy in Britain goods that are cheaper or better suited to their needs than those obtainable in the United States. The sterling area does not in the long run owe Britain a living. The working of the dollar pool, enabling Britain to finance its own direct deficit with North America, depends on this country's ability to supply the rest of the sterling area with a surplus of exports over its imports from those countries. The sterling area will be destroyed from the centre if this country fails to play its part.

It is, therefore, false and short-sighted to suppose that a balance-of-payments deficit is in some way less serious and damaging than a dollar deficit. It does not matter greatly how, in the next few months, the British problem is divided between

a general balance-of-payments deficit and a dollar shortage. The important point is that it began as a general deficit, that it resembles the problem of 1947 rather than the problem, in one sense more limited, of 1949. The measures required to solve it are those of 1947 rather than of 1949. The main answer will not in any case be found in another specialized " drive " for dollar exports, comfortably remote from the ordinary consumer and most of industry because the range of products involved is necessarily limited. In fact, the primary need is to squeeze out more British exports to the world in general, and the pinch will be felt by everyone.

III
Inflation and Exports

In 1951, Britain has so far incurred an external deficit at the rate of some £400 millions a year while unemployment has been pushed to its lowest peace-time level of only one per cent. of the working population. The significance of this combination is unmistakable, even by those who still insist on making light of the industrial rigidity inseparable from brimfull employment. An overseas deficit when employment is so high is the mark of inflation—of inflation not in the popular sense of rising prices but in the stricter economic sense of an attempt to spend more than the real resources available to the community make possible at current prices; it is, in other words, the symptom of " too much money chasing too few goods."

The external deficit could have been avoided only if real demand in the home market had been smaller—either because incomes were less or because prices were higher. In fact, expenditure on consumers' goods and services in the first half of the year seems to have been about 4 per cent. greater, after allowing for the increase in prices, than it was in the same period of 1950. The resources needed for increased exports have been pre-empted by the home market. Inflationary pressure has proved to be stronger than the Chancellor thought at the time of the Budget; sharply rising prices and small tax increases have limited consumption less effectively than he expected.

For this there may, it is true, have been in part a temporary reason. At the beginning of the year the British consumer seemed to wake up, rather belatedly, to the prospect of rising prices. He bought ahead of his needs, and this may be matched by a slack in spending later. Indeed, there are signs that some people have been encouraged by reports of falling commodity prices to hold off the market in the past month or two. It would

be surprising, however, if this movement went far or lasted long. Consumers are likely to discover that for many products the effects of a reduction, possibly temporary, in raw material costs are far outweighed by recent increases in wage costs; and those increases are likely to continue and in turn further to fan the fires of consumer spending.

The long period of near-stability in wages ended a year ago. The first, and moderate, round of wage advances was completed by the spring, but was immediately succeeded by the second round now in progress. The rises granted during only the first seven months of 1951 have added some £150 millions a year to the country's wage costs. There is no sign that the pace will slacken during the remainder of the year. Moreover, in conditions of very full employment and labour scarcity, earnings are being increased, apart from changes in wage-rates, by overtime working and by bonus and incentive payments designed primarily to out-bid other firms for labour. It is a fairly safe guess that altogether more than £400 millions —10 per cent.—will be added to the national wage bill in the course of the year. Moreover, the claims for more pay naturally get bigger as the spiral proceeds. By the time, therefore, that the second round has extended to all industries—which will certainly happen in the course of the winter—the unions that got in first will again have, from their sectional point of view, good grounds for dissatisfaction. The British economy is now caught in a spiral of rising wages and prices that can be halted only by the most determined and vigorous Government action.

The direct connection between inflation and exports has been somewhat blurred by post-war experience. The export drive has flourished on the capital goods industries; the home demand for their products was comparatively easy to restrict by licensing and other Government controls. Now, however, the dependence of rearmament on engineering and the metal trades makes a further increase in capital goods exports impossible. The total volume of exports will fall, not rise, unless exports of consumer goods, such as textiles, are greatly expanded. Most of those industries have fared relatively badly among post-war exporters. They feel most keenly the pull of a strong demand at home, and there can be no serious possibility (even if it were desirable) of constructing a new apparatus of Government controls sufficiently comprehensive to cushion the consumer goods industries from the pull. Moreover, even in a world-wide inflation it is much harder to persuade people to import textiles, china and the like than to sell machinery and

equipment to countries full of ideas of industrialization and economic development generally. Britain has to concentrate on the harder task just at the time when German and Japanese competition is at last strongly reviving. By comparison with these conditions, the previous victories in Britain's post-war export efforts must be counted cheap.

IV
Outlook for Production

The way to expand exports is to cut demand at home. The remedy is the same as Sir Stafford Cripps applied to the troubles of 1947. But among the many differences between the situation then and now, one at least is critical. For all the courage and determination they showed, Sir Stafford's disinflationary measures were never in fact required to cut the consumption of the British people. From 1947 to 1948 the increase in production was considerably greater than was required for extra exports alone. There were resources to spare for slight increases in investment and in personal consumption. The effect of disinflation was to set a narrow limit to the increase in consumption that would otherwise have been considerable; but it did not have to reduce consumption. The rising tide of production floated the British balance of payments off the rocks; the Government had merely to hold the ship steady.

The task of 1951–52 is far harder. The tide is smaller and the ship has to be pushed as well. Production has lost its spring. Whereas industrial output in the first six months of 1950 was 12 per cent. higher than in the same period of 1949, the parallel increase this year is only $5\frac{1}{2}$ per cent. There are signs that even this lower rate of increase may not be maintained. It is, no doubt, natural that the abnormally rapid industrial progress of the post-war years should slacken. To some extent, though not yet to a large extent, rearmament can also be blamed; there is inevitably a temporary fall in productivity while factories are converted from civilian production to the manufacture of arms. But the greatest immediate danger is that mounting inflation will restore the industrial conditions of 1947. It may take us back, that is to say, to the "empty economy" of Daltonian times when, under the pressure of an excessive monetary demand, stocks of all kinds were too low for industrial efficiency; factories were consistently held up by shortages of raw materials and components, and in February the critical shortage of fuel became too acute to allow industry to operate even at the shuffling pace of concealed unemployment.

There is a possibility, and with severe weather there is a probability, that the experience will be repeated this year. The critical limits on production have proved not to be the shortages of imported raw materials that were so widely feared at the beginning of the year. Those have reduced output in a few industries, but the general limit to production is set by supplies of coal and power and by difficulties in transport. The most serious material shortage is of steel, and that is itself in part the consequence of last year's fuel shortage. It is also lack of coal that forces people to use more electricity for heating and cooking. Apart from this, the demand for electric power has not expanded much faster than was anticipated. But the British Electricity Authority has fallen far short of the expansion of generating capacity that was supposed by this winter to give a comfortable margin over the peak demand. The programme was unrealistically ambitious from the start. Its impracticability should long since have been recognized and measures adopted —such as the taxation of electricity consumption—that would have brought demand into line with the generating stations' capacity.

All these troubles, however, are subordinate to the coal shortage. The autumn season has begun with stocks only one million tons higher than last year's, although a crisis was then barely avoided and consumption has since increased. The National Coal Board has not succeeded either in increasing output per man-year in line with the extensive mechanization of the pits since 1939, or in bringing into its labour force the flow of younger recruits that the mines still desperately need.

This is the sharpest expression of the inflexibility that has hampered British industry since the War. Depression and war had left many basic industries too small in manpower and too backward in equipment fully to meet the requirements of the economy in a state of full employment. Even if inflation had been avoided, it would have been difficult to get enough labour for the formerly depressed industries like coal and cotton. In practice, inflation has inhibited changes, while there has also been a complete failure to pursue the vigorous industrial policies—such as the recruitment of foreign labour on a considerable scale—that were plainly required. Nationalization, even in the least-disputed case of coal, has in no way helped. Equally in the other three industries most directly concerned —electricity, the railways and steel—nationalization has not solved any industrial problems nor even given any ground for confidence that they ever will be solved.

There is some danger that, with a severe fuel shortage, industrial production will fall this winter. At the best, shortages of fuel, power, transport and basic materials will set a strict limit to the possible increases of production; they ensure that the increase in exports necessary to balance the overseas accounts can be achieved only with an appreciable reduction in the standards of consumption that have been enjoyed this year. After the buying spree of the spring, the unpleasant need is for real cuts, not hypothetical sacrifices of improvements in the standard of living that could have taken place if there were no adverse movement in the terms of trade, no dollar problem, and no rearmament.

V

The Economic Requirements of Cold War

In this respect, the problems of 1951 are greater than those of 1947. In a sense, rearmament accounts for the difference. If no extra resources were needed for arms, but economic conditions were otherwise unchanged, a small increase in production would enable exports to expand sufficiently, and overseas payments to be balanced, without cutting consumption. But this speculation about an isolated change is unreal: in fact, if there were no rearmament other conditions would be different too, and might on balance be more unfavourable to this country. Rearmament determines the present form of the British problem; it does not create the problem. The present crisis is another stage in post-war Britain's continued difficulties in paying its way.

Most popular discussion exaggerates the difference that rearmament makes to the size and nature of those difficulties. The defence programme is unprecedented in peace-time, but that does not make it equivalent to war. At its peak, defence expenditure is planned to absorb about one eighth of the national income; at its peak, the war effort absorbed one half. Moreover, the distinctiveness of war economics arises from the fact that then we may all in the very short run, not in the Keynesian long run, be dead. When men's lives are immediately at stake, the ordinary economic criteria—and, particularly, the normal choice between current and remoter results—must be entirely subordinated to the imperative need for as much military strength as possible today. It becomes sensible to run down the country's capital equipment, to borrow abroad from any country willing to lend, to do almost anything that will increase the resources currently available for armaments. The requirements for containing Russian aggression in the cold

war are different: it must be planned as an effort that can be sustained if need be indefinitely. And therefore it should not be carried out at the expense of capital investment, at the sacrifice of that capacity for rapid industrial progress which is the West's chief asset. In the war of ideas it is imperative to show that military strength can be obtained without economic decline; it is important that the West should be able to contribute to the development of the backward areas—which means that it must export more than it imports.

It is entirely to misunderstand this point to conclude that the amount of rearmament should be only what is comfortable. Its real significance is almost the opposite. It is that the resources for defence must be found not at the expense of productive capital development and of exports, but at the expense of current consumption. This is the essential economic distinction between war and cold war. From 1939 to 1945 far more resources were obtained for the British war effort by living on capital—by forgoing both new investment and normal replacements in British industry, and by incurring a deficit externally—than were obtained by the reduction in civilian living standards. It is this sacrifice of capital that makes the methods of the war economy—of inflation partly suppressed by Government controls—appropriate and tolerable for a few years. The same methods are not appropriate to the effort of rearmament for cold war which must be made primarily at the expense of current consumption.

The planned economy of war-time still has its ideological attractions for many politicians, but to return to it would be fatal for the real purposes of rearmament. All the reasoning of the past six years remains relevant in the present situation. There is the same objection to incurring a foreign deficit by allowing inflation at home. There is the same case against hampering industrial innovation, risk-taking and hard work by high direct taxation. There is the same objection to making industry rigid by Government controls and allocation schemes. These arguments do not require repetition here. Until a few months ago their strength was increasingly recognized by the political Left as well as by the Right and by middle opinion. To claim that circumstances have changed since then is simply to admit failure to avoid inflation. The extension of price control in these conditions can only have the effect, in so far as it is successful in keeping prices down, of encouraging consumption and hampering exports and rearmament. Statutory limitation of dividends—apart from its inequity when other

incomes are rising—can have no significant effect in reducing consumption; and it is bound to weaken the economy by still further reducing the supply of risk capital for new and expanding enterprises.

All this is not, of course, to say that Government controls on industry have no part at all to play. Prohibition of the use of materials for certain purposes, and to a lesser extent allocation schemes in general, can help to shift resources to rearmament work more quickly than could be done by the unaided price mechanism. But this is essentially a temporary function, applying to the first period of a sharp heave in armament production. It does not mean that controls are an efficient permanent instrument of economics for the cold war. And they can fulfil their temporary function only if they are used as a small adjunct to, not as a substitute for, a disinflationary financial policy.

VI

The Weakness of Restrictionism

This is equally true of controls over external trade. As yet, the Government's one definite response to the balance-of-payments deficit has been to suggest that dollar imports must be restricted again. The dangers of such action were demonstrated last year, when—in consequence of the dollar cuts imposed during the devaluation crisis—British buyers had to hold off the market in a period of rising prices. The British economy was weakened by running down its stocks of an appreciating asset. The effect of the cuts was to transfer some British difficulties to this year, and thereby to make them worse: the necessity of replacing the stocks at higher prices has helped to create this year's payments deficit. In the interval, a serious risk of industrial dislocation and unemployment, resulting from the shortage of materials, was only just avoided. It is plain from this experience that a fresh restriction of imports cannot be carried very far. As a major item of economic policy, it would represent not the shaping of the British economy to its present tasks but a decision that those tasks could not be carried out.

There is even less to be gained by the intensification of other restrictions. Nothing is more fallacious than the belief, widely and unthinkingly accepted, that because the convertibility of sterling had to be suspended in 1947, inconvertibility and exchange control are in some way a direct protection to the British balance of payments. In fact, of course, other countries will accept inconvertible sterling, and having

accepted it will to some extent spend it (directly or via transfers to third countries) on goods they would not otherwise have bought from Britain, only if they are short of " harder," freely usable currencies like the dollar. Inconvertibility and exchange control are a protection not against the British dollar shortage but against the consequences of dollar shortage in other countries, which would change their sterling into dollars if they had the chance. This protection was essential until 1949, while the world in general was recovering only slowly from the acute dollar shortage consequent on war-time dislocation. But while rearmament continues, American imports of primary products are likely—in spite of some oscillations—to be high; at the same time, military and economic aid from the United States will be extended to some countries on a considerable scale. In these circumstances, the world as a whole is unlikely to be very short of dollars, and exchange restrictions on current transactions will therefore be of very limited assistance to Britain. The volume of British exports will depend directly on their competitive quality.

The importance of currency convertibility to London as a financial centre and to Britain as a trader should still need no emphasis. Yet how far it has been forgotten was shown by the widespread suggestion, earlier this year, that sterling should be revalued even though exchange restrictions remained. This advocacy continued even after it had become plain that the overseas account was swinging back into deficit. The argument is that by revaluation the terms of trade could be moved in Britain's favour and the internal economy be saved from disturbance by the high world prices prevailing for British imports. This argument depends on the assumption that British exporters are charging less for their goods than the traffic will bear, and can therefore raise their prices in foreign currency, without losing much business, if sterling is revalued. This was probably true at the beginning of the year, but in the following six months export prices were in fact raised by 14 per cent. The evidence of market reports makes it unlikely that by now foreign demand for British goods, and particularly for the textiles and other consumer goods on which increasing reliance must be placed, is as inelastic as the advocates of revaluation suppose. Increasing German and Japanese competition will make it more elastic, and revaluation would weaken Britain's competitive position in relation not only to the United States but also to many European exporters, who would be unlikely again to follow sterling. But if British export prices in foreign

currencies could not be raised by the amount of the revaluation, their sterling prices would have to fall; exports would become less profitable, by comparison with sales to the home market, and their volume would be reduced.

It is difficult to resist the impression that the advocacy of revaluation has drawn its strength less from a careful consideration of its effects on exports than from the tendency to believe that there must always be some device of external policy by which the British economy can be saved from disturbance and readjustment to changed conditions. Revaluation might well put a fresh strain on the unity of the sterling area, since it is by no means certain that all the members would follow suit. And it would sacrifice, for at best a very questionable immediate gain, the general international interest in avoiding frequent changes in the exchange-rates for major currencies. The proper approach for an important trading country incurring a foreign deficit is the reverse of this. It is to fit internal policy to external need, not external policy to internal need. Much harm, and no good, will be done by further restrictionism in trade and exchanges; indeed, Schachtian manœuvres could only impair the political as well as the economic unity of the free world. The direction of movement ought now, no less than before, to be towards more liberal practices.

VII

Conclusion: The Policy for Solvency

The internal policy fitted to external need is one of disinflation. Towards this the Government has taken, since the inadequacy of the Budget became plain, only one step. It has made a fresh appeal to the banks to exercise restraint in their lending policies. Can this really be expected to have any substantial effects? While it is true that lack of restraint in bank lending could aggravate inflation, the utmost restraint cannot serve to cure inflation once the germ is in the economic system. The banks are bound to satisfy the level of normal credit requirements for trade and industry dictated by whatever monetary demands Government policy fixes for the economy as a whole. When prices are rising, bank loans can hardly fail to expand, but that is symptom, not cause.

The only effective way to reduce the volume of credit is to cut the demand for it by raising its price—that is, by raising interest rates. A moderate rise (which would impose no significant extra burden on the Exchequer for the service of debt) would have three distinct advantages: (1) it would dis-

courage some of the " inflationary froth " of trifling investment projects and wasteful stock-holding that are bound to exist when industry is threatened by shortages and encouraged to extravagance by high taxation ; (2) it would weed out the least profitable investment projects by an economic test and so reduce the need for Government controls and licensing ; (3) by reducing some security values it would discourage private consumption out of capital gains.

It is doubtful, however, whether any of these results, though useful, would be large. A sharp increase in interest rates would still be powerfully disinflationary, but it would operate by reducing investment rather than consumption. There is some investment, particularly building for non-industrial purposes, that could be cut. For this purpose, higher interest rates are needed and should be applied to the borrowings of local authorities and public boards as much as to the private sector of the economy. But most industrial investment has to be maintained, and the resources for arms and exports must therefore be found chiefly at the expense of consumption. And the main attack on consumption must be made not by monetary action but directly through the State's own finances, by budgetary action. Rearmament has made the dilemmas that this involves sharper than ever. Taxation is already so high that it has become an extraordinarily inefficient instrument for cutting consumption : in order to pay yet more taxes, people save less, or dis-save, rather than spend less. Further direct taxation has the even greater disadvantage that (as the Chancellor of the Exchequer, if not his colleagues, seems now to join his critics in recognizing) it seriously reduces the incentives to hard work and enterprise, and therefore not only cuts another slice out of the cake available for the consumer but also removes some of the ingredients for the next cake. Indirect taxation avoids this but has the disadvantage that, because it raises prices and the cost of living index, its effects are likely in the present state of the labour market to be quickly offset by irresistible demands for higher wages.

When Government expenditure is so high, a Budget surplus cannot prevent inflation. Further taxation does not reduce private consumption, and it must therefore be the Government's own consumption that is cut. As rearmament increases, the resources required for it should be freed by reducing other expenditure. For the first year of the defence programme, at least, the Government has rejected this logic. And that is why economic policy seems so helpless in face of the

present crisis. The welfare state can arm effectively for cold war, avoiding inflation, maintaining investment and earning a surplus in its overseas accounts, only by retrenchment.

Government consumption is, of course, that part of Government expenditure that is spent directly on materials, wages and salaries (for such purposes as armaments, education, the health service, and administration generally), as distinct from transfer payments (pensions, debt interest, food subsidies, and so on) which increase the net incomes of people who are not working for the Government. Last year, Government consumption amounted to about £2,000 millions if the State and local authorities are taken together, and of this about a third was already devoted to defence. No political party is likely to cut the remainder so sharply as to provide all the resources that will have to be diverted to arms and exports during the next three years. Beyond a certain point, it would be wasteful to do so, because the only labour that could be freed would be highly specialized in its present work and would increase the resources for defence and export only slowly, after a long chain of transfers. But if Government consumption cannot be cut sufficiently, resort must also be made to the more difficult policy: private consumption must somehow be cut. Since extra taxes are ineffective and damaging, the way to achieve this is to modify the Government policies that at present encourage private consumption.

Those policies, are, chiefly, the strict control of rents and the subsidization of food. They are socially inefficient because directly they "help" almost everyone—the rich and the moderately comfortable as well as the poorest—but do so at costs, in economic distortion and high taxation, that reduce the real national income and indirectly make everyone worse off. The same social benefit could be obtained at a fraction of the real cost by increasing special payments—particularly national assistance payments—to the most needy. To relax rent control and remove the subsidies need not be an act of injustice to the most needy sections of the community. The real objection to it is that it might not succeed in reducing the consumption of others. The difficulty is the same as in imposing higher indirect taxes. The cost of living would rise, and the strongly-organized (not the poorest) workers would offset the effects by claiming higher wages. There is only one way out. The disinflationary push to the economy must be sharp enough to prevent wages from rising in line with higher prices.

Here is the underlying problem of economic policy today.

If disinflation is powerful enough for the unions not to offset it by higher wages, can it be consistent with " full " employment —on some politically acceptable definition of that slogan ? The pessimists argue that only heavy unemployment would break the power of the trade unions, that " disinflation " would have in fact to be severe deflation, which is politically and morally unacceptable. The evidence usually brought in support of this contention is that between the Wars wages at times increased in spite of severe unemployment. That in fact proves nothing : unemployment was then heavily concentrated in the depressed areas, and the relatively prosperous areas provided the feeding-ground for wage advances. The fair success of the wage restraint policy from 1948 to 1950 points to a different conclusion. No one can be confident that a moderate slackening of demand would now slow down the rise of wages sufficiently. But the experiment has to be made. The alternative is to say that nothing can be done, that inflation must be tolerated until it leads the British economy into irremediable disaster.

What is required is not—if war is avoided—heroic ; it is neither acutely nor permanently painful. The capacity, inventiveness and skill of British industry are still sufficient, if they are not corroded by further inflation, to ensure that higher productivity can quickly restore the immediate cuts in consumption made by disinflation. But if there is not disinflation first the increase in production will be small and, because it will be production of the wrong things, of little value to British export trade. The situation provides no necessary reason for pessimism ; but a realistic policy is the only basis for optimism.

T. W. Kent.

London, S.W.1.
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The Economic Recovery of Western Germany

By Professor A. K. Cairncross

THE Potsdam Agreement and the subsequent partition of Germany into East and West made it certain that, as the western rump recovered from the effects of the War, her industrial and commercial structure would take on a greater and greater resemblance to that of the United Kingdom. The area east of the Oder-Neisse, representing a quarter of pre-war Germany's agricultural land, has been lost to Poland and no longer sends its surplus of food to the west. The population of Western Germany, swollen by an influx of 9 million refugees, is equal to Britain's in size and much the same in density. The two countries are alike in the slenderness of their agricultural resources, the lack of indigenous raw materials, the abundance of coal, and the wide range of traditional skills. In such circumstances, the pattern of their trade is likely to be similar also. Not only is Western Germany bound to become more heavily dependent on an exchange of manufactures for food and raw materials: the more her trade is swept by political currents away from Eastern Europe, the more strongly it must set towards markets overseas and the more Germany and Britain come into competition with one another.

It is natural, therefore, that the progress of German recovery should be watched with interest and some anxiety in the United Kingdom. This interest has been heightened because Germany has apparently pursued a widely different economic policy from Britain and because different assessments of her success in that policy have been formed.

It is possible to present two entirely different pictures of recent developments in Germany. One is a picture of weakness: of recurrent crises in the balance of payments and failure to employ a substantial proportion of available manpower. The other is a picture of strength: of uninterrupted economic expansion, with the main indices of economic activity climbing steeply and persistently for three years. Those who are impressed by the elements of weakness tend to diagnose German policy in terms of a reckless dependence on uncontrolled private enterprise. They are alarmed by a volume of unemployment and degree of social inequality which they regard as the inevitable outcome of the policy pursued. Those who are

impressed by the elements of strength argue that no other policy could have brought about so rapid a transformation, that all have gained, and gained heavily, from it, and that unemployment will melt away as expansion proceeds.

Production Above Pre-War Level

The expansion in production over the past three years has certainly been prodigious. Industrial production has more than doubled and is above the pre-war level.[1] In agriculture the pre-war volume of production has also been recovered—in half the time that was necessary after the First World War. The volume of exports doubled in 1949, doubled again in 1950 and by the middle of 1951 was six times as great as in 1948. Since exports of coal and coke formed half the total in 1948 and did not rise significantly thereafter, the rate of increase in other exports has been correspondingly more rapid. Exports from the Federal Republic are currently well above the pre-war level for the same area—probably by at least one-third.

The expansion in production has been general over the field of industry. It has been greatest in the engineering group: there, output has increased threefold in three years. But even in coal-mining, which has lagged somewhat behind, the increase in the past three years has been nearly 40 per cent. There have been constant threats of a shortage here and a bottleneck there, but until this spring shortages of materials or of capacity rarely exercised any significant influence on production.

It is surprising that so rapid a rate of expansion should have been accompanied by heavy unemployment. In the first year after currency reform, between the middle of 1948 and the middle of 1949, unemployment increased from 450,000 to just under 1,300,000, and, after a further rise, was back again at about 1,300,000 by the middle of 1951. The initial increase did little more than reflect the redundancy of many of the workers who were nominally in employment in the days before currency reform. When those workers were dismissed, output did not suffer; on the contrary it continued to increase. In agriculture, for example, there are now about 500,000 fewer insured workers employed than in June, 1948; yet in the meantime agricultural output has gone up by about one-half. A second reason for the apparent paradox is to be found in the rapid increase in the numbers seeking paid work. In the past three years more than 2,000,000 insured workers have been added to the total and the rate of increase has been fairly

[1] See also chart on page 61.

steady from year to year. About half of these additional workers are women; and although unemployment has been consistently heavier among women than men, the number of women in jobs has risen nearly three times as fast as the number of men.

Unemployment at the end of June represented just over 8 per cent. of the total number of insured workers. Before this figure is compared with the British proportion, however, an allowance must be made for the larger number who are not insured in Germany. When they are added in, the unemployment percentage comes down to about 6, with a wide seasonal fluctuation between a winter peak and an autumn trough. There are also big differences between States (*Länder*). Unemployment is particularly high in the agricultural States, especially those giving shelter to a large number of

TABLE I

Industrial and Agricultural Production in the Federal Area, 1948–51

	1948	1949	1950	1951 Jan.–June
	1936 = 100			
Total Industrial Production* ..	62	89	113	135
Capital Goods	52	83	109	136
Engineering	52	87	121	156
Fuel and Raw Materials ..	86	106	127	146
Consumer Goods	53	81	103	119
Textiles	47	82	107	125
Chemicals	65	89	118	142
Building	—	85	99	95
Agriculture†	73	86	105	124
	In thousand tons			
Production of pit coal per working day	285	338	364	394
Production of raw steel per working day	18·2	30·1	39·6	42·3

* Excluding building.

† O.E.E.C. estimates for agricultural output net of imported feedingstuffs: 1934–38 = 100. F.A.O. figures are substantially lower but it is very difficult to establish a reliable pre-war base for agricultural production.

refugees. Over two-thirds of the unemployed are in the three States of Schleswig-Holstein, Bavaria and Lower Saxony, and in the two ports of Hamburg and Bremen. The rate of unemployment in those areas is more than thrice as heavy as in the rest of Germany. By contrast, in the main industrial State, North Rhine Westphalia, there are now 800,000 more workers in employment than three years ago.

Making all allowances for the unreliability of some of the figures, the picture that emerges from them is clear enough. The Federal Republic, with a population swollen by refugees, has been faced with serious difficulties in finding useful employment for its larger labour force. The States into which the refugees first moved were mainly agricultural, and there was already a surplus of workers on the land in relation to real requirements. There had to be a further movement, therefore, towards the industrial areas: but it was in those areas that housing had suffered most damage, and this has limited the pace of absorption. Something approaching a shortage of labour in North Rhine Westphalia, relieved by an influx from other parts of the Republic, has co-existed with a large surplus of labour elsewhere.

The unemployment problem has thus been complicated both by the entry of large numbers of additional workers into the labour market and by the factor of immobility. It has also been complicated by a third circumstance: the need to restore a balance between employment in industry and employment in other activities such as agriculture and services of all kinds. In the past three years, employment in industry has risen by about one quarter while employment in all other activities has actually fallen by some 400,000. It was, indeed, inevitable that the increase in employment should be concentrated in the industrial sector, and that the rate at which this could be expanded should set the pace for the rest of the economy. In 1948, two-thirds of Germany's imports were financed by aid from abroad. It was inevitable, therefore, that a large slice of any additional output, if Germany were to become self-supporting, should take the form of exports; and in practice to produce more exports meant to produce more manufactures. It was inevitable also that, as the German standard of living improved, the improvement should be concentrated on food consumption, clothing and household goods, and that transport, distribution and other services, already adequately provided with labour, should play a subsidiary rôle. Extra food consumption meant either extra exports or the growing of more

food in Germany, and this called for the use of more fertilizers, equipment and industrial products rather than for more labour. Anyone sitting down in 1949—as the representatives of the Bizonal Administration did sit down—to draw up a man-power budget for a viable Germany would have been obliged to visualize a large expansion in employment in industry and a relatively moderate expansion in other activities. Had available manpower remained constant, the task would have been an easy one; in point of fact, the increase in industrial employment since 1949 exceeds the total of those who were unemployed in 1949. Nevertheless, there are more people out of work now than in 1949.

Recovery Loses its Momentum

Up to the spring of 1951 the increase in industrial production proceeded more or less without interruption. The increase rested heavily on a corresponding expansion in supplies of coal and steel, and any threat of a shortage of either, or both, of these was bound to jeopardize further industrial expansion. This was particularly true of exports, since it was in machinery, vehicles and other engineering products that the steady increase in exports was concentrated.

In the past few months that danger has become a very real one. Deliveries of finished steel to the home market have remained approximately constant since last autumn, and in the second quarter of 1951 were only 10 per cent. higher than in the corresponding quarter of 1950. The output of the engineering industries rose by 40 per cent. over the same period; and even after allowing for the fact that it was in electrical equipment and precision instruments (which use relatively little steel) that this rise was greatest, the divergence is still significant of the growing shortage of steel in Germany. The output of steel is below capacity but seems to have reached a plateau from which no early rise is to be expected. There is not enough scrap, blast furnaces are idle for lack of coke, and even the supply of coke can be maintained only by importing coking coal from the U.S.A. (and exporting finished steel in return). Then there are special difficulties: the shortage of sheet-rolling capacity and hence of auto-body sheets for the automobile industry; the continuance in force of the limitation on steel production to 11·1 million tons, relaxed only in favour of steel to meet defence requirements. Orders for finished steel have climbed to the equivalent of 10 months' production and are still being accepted faster than

the steel can be delivered. At the same time, the deliveries, maintained only by drawing on stocks at the steelworks, are leaving the engineering industry with insufficient supplies; in June the output of capital goods fell, although the normal seasonal movement is sharply upwards.

The coal situation is equally gloomy. Coal production has at last recovered to the 1936 level, and is 8 per cent. higher than a year ago. This is a big enough increase for normal purposes; in Great Britain the consumption of coal has been rising at no more than 2 per cent. per annum. But it is doubtful whether even an extra 8 per cent. will be sufficient in Germany. In spite of imports from America (1 million tons in the first half of 1951) stocks are falling and the prospects for the winter are not bright. Absenteeism in coal-mining is high—15 per cent.—and productivity is still far below—about 30 per cent. below—the pre-war level.

It is no doubt partly because of these circumstances, and by no means solely because of a possible shortage of imported materials, that the most recent German plans postulate a level of industrial production in the second half of 1951 not significantly higher than that recorded in May. This is almost certainly too pessimistic. But there are signs that production is beginning to lose some of its earlier momentum and that, in the next year or two, the production curves in Germany will follow more closely those in the rest of Western Europe.

Recovery of Foreign Markets

The increase in industrial production made possible a still more rapid increase in exports. Swiftly, and without giving rise to any of the friction and protests that at one time seemed likely, Germany has begun to recapture her pre-war position in European trade. The volume of her exports is already larger than that of exports from the Federal area before the War and not far short of the total for the pre-war Reich. Because world trade has grown in the meantime this still leaves Germany a less important supplier of foreign markets than she was in the 'thirties; in trade between members of the O.E.E.C. group of countries, for example, she supplies about one-sixth of the total, whereas in 1937 the Reich, admittedly a much larger area and with a population one-third greater, supplied nearly one-quarter. In all her main markets except Austria, Germany takes a considerably smaller share than did the pre-war Reich.

The recovery of German trade has helped to restore a

more normal pattern of European trade, and to allow Europe to dispense with imports costing dollars. Many countries that previously obtained supplies from Germany were obliged, after the War, to turn to the United States as the sole available source for similar goods. Now that German industry has recovered, this factor in the unbalance between Europe and North America has been largely removed. At the same time, Germany has herself provided an expanding market for the products of other European countries, particularly agricultural countries like Denmark and Holland. Half of the large increase in trade between Western European countries between 1948 and 1950, for example, represented additional purchases made by Germany.

The increase in German exports, amounting to the equivalent in three years of nearly $3,000 millions per annum, must have absorbed a high proportion of the increase in industrial production—particularly in machinery and chemicals. This has meant a marked change in the balance between home and export markets. In 1948, the export market was still of relatively little importance, but by 1951 the proportion taken by exports in some sectors of industry was one-third or more. One of the most striking examples of the change is provided by motor-cars: in the first half of 1949 only one car in six was exported; in the first quarter of 1951 the proportion had risen to one car in three. Yet even this proportion is far below the British. With an output of cars less than half Britain's, Germany allows more cars to be sold on her domestic market than Britain on *her* domestic market.

The expansion in German trade has not taken place without a number of setbacks. These did not affect the steady rise in exports but did produce some oscillations in imports. The first of these took place in the winter of 1949–50 when Germany withdrew import restrictions on half her total imports from O.E.E.C. countries in conformity with the decision taken in O.E.E.C. in November, 1949. The result of this liberalization of imports was an increase which brought Germany into deficit with other European countries and swept away most of her remaining reserves. The increase in imports assumed alarming proportions but, in the end, corrected itself largely because many of the imports proved a bad speculation. By the summer of 1950 Germany's imports were falling and she was again a creditor in relation to O.E.E.C. countries.

The outbreak of war in Korea, however, released a fresh demand for consumer goods, there was a general run on the

shops (as in many other countries) and efforts were made by merchants to replenish stocks of imported finished goods and to build up stocks of raw materials. It was this that created the crisis in October, 1950, when the German Government found that it was in imminent danger of exhausting its "overdraft facilities" with the European Payments Union. As there is much confusion on the point, it may be well to emphasize that this crisis was in no way the result of any fresh measures of liberalization taken by Germany in the autumn of 1950. These measures, with minor exceptions, did not come into force until October 4th, 1950, while most of the run on import licences took place in the three preceding months. Strict import control was exercised throughout over about half the total of Germany's imports and various measures were taken in October to apply a brake to the remaining half.

Recovery from the crisis at the end of 1950 proved more difficult than recovery a year previously. With the help of a special credit of $120 millions from the European Payments Union, Germany appeared to be on the way out of her immediate difficulties when a second wave of consumer buying after the entry of China into the Korean war threw the balance of payments once more into disequilibrium. In February, Germany was obliged to suspend liberalization and put a virtual embargo on the issue of import licences until the beginning of June. Thereafter the position steadily improved. Germany developed a large surplus within the E.P.U. and out of this surplus was able to repay the whole of the special credit before the end of May (i.e. by the month when repayment was due to commence). In the second quarter of 1951 Germany, for the first time since the War, was in surplus with the rest of the world on current account.

The conjuncture of more drastic import restrictions and an improved balance of payments was largely accidental, and reflected the downturn in commodity markets throughout the world, a consequent bias towards working off, rather than building up, stocks, and some flagging of consumer demand, notably for textiles. A decline in imports had already begun before the suspension of liberalization. The decline was much faster in the second quarter of 1951, but just as the swing upwards was too hot to last, so it will no doubt prove of the swing downwards. The contraction in imports has been concentrated on goods coming from other O.E.E.C. countries in Europe. A 50 per cent. cut in those imports has transformed a slight deficit in trade with O.E.E.C. countries during January

and February into a surplus in the second quarter of the year of \$90 millions a month. It would be hopeless to imagine that Germany could go on running up an export surplus with her European neighbours on this scale, unless the European countries were in a far happier position to achieve a similar surplus in trade outside Europe.

Improving Balance of Payments

Although public attention has been focused on Germany's balance of payments within the E.P.U., it is the total balance of payments that matters most. In seeking to bring total exports and imports into equilibrium within a measurable period of time the German authorities started under a considerable handicap. They had little or no reserves with which to operate; stocks of imported raw materials had to be built up and connections in foreign markets restored or developed; there were bottlenecks in key industries and doubts as to the adequacy of the supplies of coal and steel on which the export industries rested; and although there was an ample supply of labour it was not always in the right places or of the right type. Finally, the financial system was relatively feeble and took time to acquire the necessary suppleness, while, politically, the Government was limited in various ways both by the federal structure and by the presence of the Occupying Powers.

At first the rapid growth of exports was insufficient to prevent imports from drawing further ahead, and until 1949 the balance of payments on current account was increasingly in deficit. Since then there has been a steady fall in the deficit, as will be seen from the table overleaf, culminating in its temporary disappearance in the spring of 1951.

It is paradoxical that the improvement in the balance of payments should have coincided with recurrent exchange crises. For this there have been three main reasons. The first, and most important, has been the decline in foreign aid. Between 1948 and 1950 this was cut in half, and although in the first half of 1951 Marshall Aid imports actually increased again, this represented no more than an emptying of the pipe-line. In 1951–52, foreign aid is likely to be under \$200 millions, compared with an average of nearly \$1,000 millions in 1948 and 1949. The second factor has been the smallness of German reserves. The holdings of gold and dollars in the *Bank deutscher Länder* in the middle of last year were some \$200 millions, or about half Germany's current deficit in trade with the dollar area. Finally, Germany has sought, partly because

foreign aid was shrinking, to throw her deficit into the E.P.U. area and away from the dollar area. When the deficit overran Germany's quota in E.P.U. she went into retreat in her efforts to switch from dollar to E.P.U. sources of supply. In the second quarter of 1951 her imports from the E.P.U. area fell from $210 millions per month to $140 millions per month, while her imports from other countries rose from $80 millions per month to $110 millions per month.

In the middle of 1951, Germany's gold and dollar reserves, even after the winter crisis, were higher than a year previously. The special credit which she received from E.P.U. had been repaid and her cumulative deficit in E.P.U. had fallen to about $200 millions—well within her enlarged quota of $500 millions—and was still falling. It might seem that her foreign exchange difficulties were well on the way to a solution.

Such a conclusion, however, would almost certainly be mistaken. First of all, there is a current deficit in dollar trade—leaving foreign aid out of account—which, far from declining,

TABLE II

*Balance of Payments of Western Germany**

	1947	1948	1949	1950	1951† 1st Half
	Million Dollars				
MERCHANDISE TRADE—					
Imports (f.o.b.) ..	825	1,585	2,064	2,544	3,130
Exports (f.o.b.) ..	320	645	1,139	1,983	3,110
Balance	— 505	— 940	— 925	— 561	— 20
SERVICES—net balance	10	45	— 128	— 112	— 180
Balance on current account	**— 495**	**— 895**	**—1,053**	**— 673**	**— 200**
Foreign Aid	611	1,059	861	491	550
Net Surplus or Deficit ..	**+116**	**+164**	**— 192**	**— 182**	**+350**

* Including Western Berlin.

† Estimated. January–June figures expressed at annual rate.

has recently increased. Germany's imports from the United States exceed her exports to the United States by between \$300 and \$400 millions—a much larger deficit than could possibly be financed through dollar earnings in Europe or elsewhere. If Germany could maintain her current rate of exports to the United States (now her second best customer) and reduce her imports to the average level for 1950, the deficit would fall to about \$150 millions per annum. But the present level of exports to the United States is exceptionally high because of the large volume of steel products included in it as part of the deal by which Germany obtains coking coal from the United States; and a large fall in dollar imports at this stage would embarrass production in Germany, particularly if large imports of coal have to be made.

A second abnormal feature of the present situation is the trading surplus of \$90 millions per month with the rest of Western Europe. So large a surplus is not and could not be a durable one so long as the means available for settling deficits in Western Europe are so slender. It has been made possible because Germany has been freed from her obligations under the O.E.E.C. Code of Liberalization while her trading partners have not. Any indication that Germany was likely to go on accumulating a substantial surplus in E.P.U. would at once give rise to demands for a relaxation of import restrictions; and indeed, once the level of imports from E.P.U. countries rises from \$140 millions per month to the agreed level of \$175 millions per month, nearly half the trading surplus will be wiped out, while invisibles, debt service and other payments will take the rest.

Thirdly, Germany's exports are now likely to show the influence of the bottlenecks in production that have been developing over the past few months. The fact that over half her exports are metal products makes her highly vulnerable to a general shortage of steel.

Taken all round, the indications are that the upward trend in exports will now begin to flatten out, that imports will have to be held at a little above the present level, and that Germany's efforts to expand exports to markets outside Europe and to substitute imports from Europe for imports from overseas will have to be reinforced.

The future development of the balance of payments, as well as of employment and output, will depend heavily on the size of the German investment programme and on the financial policy by which savings are mobilized to meet that programme.

If investment is allowed to rise to too high a level, the excess purchasing power released will inevitably react on the balance of payments. If investment has to be limited, it becomes doubly important to prevent key sectors of the economy from suffering. The investment programme links together nearly all the major issues of economic policy in Germany: the problem of reviving private savings and of inducing the public to hold its savings in some less liquid form than cash; the problem of the budget surplus and the amount of Government funds that can be used to augment private savings; the problem of the capital market and of the reinvestment of corporate profits; the problem of declining foreign aid; the problem of bottlenecks in the economy and of the investment necessary to remove those bottlenecks. These and many other problems cannot be adequately considered except in relation to an investment programme. It is surprising, therefore, that there does not appear to be a really up-to-date German investment programme; at the levels where economic policy is decided, there appears to be a quite insufficient appreciation of the importance of the issues involved in it.

The Shortage of Savings

Private savings, held largely in the form of bank deposits, respond readily to rumour and fear. Nervousness about inflation (not to speak of other dangers) creates periodic waves of panic buying by consumers and stifles thrift. Private savings in this setting are an inadequate and capricious base on which to construct the large programme of investment which the reconstruction of the country requires. In the past, the existence of large funds at the disposal of the Government, as the counterpart of the foreign aid received under the Marshall Plan, has allowed investment to be sustained at a high level; and the banks have also been able to mobilize private savings on a large scale while the public was re-establishing adequate cash balances in the years following currency reform. But these two factors cannot in future exercise so predominant an influence on the capital market and on the balance between savings and investment. Either the public must be induced to surrender some liquidity by normal investment operations or the Government must try to plug the gap out of a budget surplus. The only other possibility of any importance would be to borrow abroad, for example through the International Bank.

A budget surplus in conditions of active rearmament is

perhaps a counsel of perfection. In the early months of 1951 there was a surplus but it has since disappeared. Now, there are no less than four accounts called, respectively, the ordinary, extraordinary, supplementary ordinary and supplementary extraordinary budgets. But there is, in the strict sense, no budget. The difficulty of budgeting is partly due to the haggling that has gone on over the bill to be met for occupation costs[1] which amounted in 1950 to about $1,000 millions and might in due course be doubled. Taxation is high, but not quite as high as in the United Kingdom, even when measured as a proportion of national income. The difference is most pronounced in direct taxation, which yields 11 and 17 per cent. respectively of the gross national income of the two countries. There is also undoubted scope for measures to reduce the large-scale tax evasion that exists.

Long-term rates of interest are controlled by the Government, which permits new issues only at such low rates that the public will not subscribe. This control protects the bond market and helps to make rent controls effective; but it also destroys any possibility of restoring an active capital market and forces business to resort to self-financing in order to cover capital expenditure. The consequent lack of an organized capital market throws a greater strain on the banking system, and the central bank has, not unnaturally, become obsessed by the danger of excessive liquidity. Since currency reform, there has been a rapid and continuous expansion in bank credit, which has reflected on the one hand the desire of the public to re-build cash balances and, on the other, the need to finance the growing volume of stocks and working capital. A situation of this kind would have presented no great danger if the central bank had had adequate reserves, given the pace at which the national income and national output were expanding. But it could, and did, easily get out of hand. There must also come a point at which the public has ample cash, and stocks are adequate to the needs of industry and commerce. The task of the central bank in trying to form a correct diagnosis has thus been one of great delicacy. Its powers over the loose post-war banking structure, with its innumerable small, independent banks, have not always been adequate. Nevertheless it has shown independence, skill and resolution in the discharge of its heavy responsibilities.

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[1] Occupation costs do not, of course, include soldiers' pay and military equipment (including uniforms) which are paid for by the Occupying Powers.

Problems of the Next Phase

If the picture presented above is accurate, Germany is now at a turning-point in her economic development. She has come to the end of a period of phenomenally rapid all-round expansion, based more on the restoration of pre-war standards of productivity than on an increase in employment. From now on, the momentum of expansion is likely to fall off. Shortages of materials, capacity and skill are already acting as a brake. For the present, coal and steel are the most serious shortages, but they are by no means the only ones and are unlikely to be the most lasting. When output per head in the mines is 30 per cent. lower than before the War, it should be relatively easy to secure the modest increase in coal supplies necessary to meet domestic requirements without cutting exports or resorting to imports from America. Current plans provide for large imports at twice the price received for German coal exports; but in view of the small margin that separates an acute shortage of fuel from a superabundance, the situation might easily change within the next year. Similarly, the steel industry is by no means working to capacity and might soon overtake requirements if fuel supplies were adequate or if exports to the United States suddenly ceased. Even with more coal and steel, however, output will almost certainly begin to bump up against physical limitations: neither engineering nor agriculture, for example, is likely to show the same rate of expansion as in the past.

A distinct change in trend is also likely to show itself in Germany's trade. So far, the problem has been one of expanding the volume of exports, mainly to European markets. But the prospects of a further expansion of trade with European countries are increasingly limited, now that Germany's share is so much nearer to pre-war and her exports so much in excess of her imports. In markets outside Western Europe, Germany has already made considerable headway; nearly 40 per cent. of her exports go to those markets, where three years ago the proportion was only 10 per cent. But a still greater change in the pattern of her trade in relation to those markets will be necessary if she is to balance her accounts without a dollar deficit. Such a change will be possible only if she is highly competitive; and the shift to overseas markets, even in the present state of world demand, will probably have to take place at a somewhat slower pace.

A third change concerns the capital market and the decline in foreign aid. Germany will soon be obliged to rely

almost entirely on domestic sources of finance for her investment needs and to devise more effective means of mobilizing private savings. She cannot let the public build up its bank balances indefinitely and leave businesses to find the capital they need out of their own funds. Nor, if she is to take rearmament seriously and meet the bill for occupation costs, can she avoid a further increase in taxation. The rate at which the national income has been rising has eased Germany's financial problems by allowing businesses to make easy profits and by giving an automatic lift to tax revenues. But if the national income shows less resiliency, both the need for a more organized capital market and the need to overhaul the budget will come to a head.

The programme that is required in order to carry German recovery to a successful conclusion is a stiff but by no means impossible one. It presupposes firmer and more responsible government. In the recent past the German Government has been too engrossed in demonstrating its incapacity to export more coal, to cover its external deficit or to raise more taxes to cover occupation costs, to take the measure of its long-term problems. Things have not been made any easier by the multiplicity of international organizations or authorities—the Allied High Commissioners, the International Ruhr Authority, the E.C.A., and the O.E.E.C. Within Germany itself, the powers enjoyed by the *Länder*, and the divisions of interest and policy at all levels of authority, have added to the Government's difficulties. There has also been an aversion from strong government, and from Government control over industry and trade, that was inevitable as a reaction from the days of the Nazis. It was this popular aversion, as much as anything, that led the Government to rely so heavily on free enterprise after the War. There was neither the willingness to accept and operate controls nor the abundance of trained controllers that the alternative policy would have demanded. Free enterprise meant a fuller mobilization of managerial skill, when management was the real bottleneck in recovery. But if the bottleneck changes, and the proper tasks of management become more closely tied up with Government policy, so that the initiative passes more and more to the Government, the time may come for a change of tactics.

There is no need for this change to involve the reintroduction of widespread physical controls, although some extension of existing controls is certainly desirable. The controls in force in Germany—over imports, over grain prices,

over the allocation of coal and steel, for example—are not consistently and consciously directed to such primary aims as the wiping out of the dollar deficit. Nor are the financial controls, on which policy mainly relies, altogether directed, or directed with sufficient force, to the same ends. The first requirement is a budget that makes fuller provision, not only for occupation costs and defence expenditure, but also for a volume of investment adequate to further economic expansion. The second point of attack should be investment : the restoration of at least the nucleus of a capital market, a more positive planning of investment, and wider powers over building activity. Thirdly, the physical controls already in being should be linked more directly with export policy so as to ensure that export needs for scarce materials are met. Combined with all of these is the need to steer demand towards the goods that unemployed manpower might produce and away from goods in active demand abroad or imported from abroad.

Whether one is thinking primarily of the future of Germany or of the future of Europe, it is in the common interest that the German economy should be strong and prosperous, not weak and uncertain. If she lacks the self-confidence that comes from economic health, Germany will neither make an effective contribution to defence nor be a good neighbour. In an atmosphere of peevishness, frustration and suspicion, democracy will not take deep roots. But with understanding and co-operation from the Western Powers, that atmosphere can be dissipated and the great resources at Germany's disposal can be given full employment. The rapid progress of the past few years has been a demonstration of what Germany can do with assistance from outside, and how quickly Germany can be re-absorbed into the European economy. We should take comfort from that demonstration, rather than dwell, in a jealous and mercantile spirit, on some possible future injury to British trade.

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September, 1951.

Some Economic Problems of Atlantic Union Rearmament

By Professor J. E. Meade

THE economic problems raised by the effort of the free peoples of the Atlantic Community to rearm against the threat of totalitarian aggression are very numerous; some of them are rather baffling; and most of them raise important questions of principle as well as needing examination in their own particular historical and quantitative setting. It is impossible in a single article to deal with all of them; in the following paragraphs I have tried rather to present a catalogue of the main problems than to choose any one of them for detailed analysis.

The Scale of the Defence Effort

The basic problem is, of course, the general scale of the defence effort; and this must clearly start from an assessment of military needs. By some machinery or another the countries of the Atlantic Community have to obtain an assessment from their military experts of the scale and nature of the effort needed in the different theatres, in order to assess whether the total economic effort which is being put into their defence programmes is adequate. But this assessment of the military requirements must be set against the available resources. It is rarely possible to fulfil completely the absolute needs of any consumer and the military machine is no exception to this rule. To reach a rational decision about the proper scale of the rearmament effort one must ask how much the other economic objectives of the Atlantic countries, such as the development of their civilian standards of leisure and of consumption and the further capital development of their own economies and of those of the under-developed areas, would have to be set back in order to release the manpower, materials, capital equipment, and so on for the rearmament effort. The central political decision is then to balance the military against the civilian needs.

No attempt is made in this article to carry out this task. It would require a military assessment which the author is totally unqualified to make. This article will take the existing scale of rearmament plans as a starting point in order to consider

their economic effects. Incidentally, however, it is important to realize that if present programmes are not adequate from the military point of view it should be possible to raise them. We plan now for a demi-semi-war economy. In the United Kingdom in 1949–50 we spent some 7¼ per cent. of our net national income on defence; in 1951–52 we intend to raise this percentage to about 13 per cent.; but at the peak of the Second World War it was over 50 per cent. In the United States the rate of expenditure on defence and foreign aid in 1949 was about 8¾ per cent. of their net national income; in 1951–52 it is planned to be something like 17 per cent.; and this is to be compared with over 40 per cent. at the peak of the War. Our plans leave a great deal in reserve.

But given the present programmes, how will they react upon civilian standards? In one respect, the present economic problems of rearmament are essentially different from those of rearmament at the beginning of the Second World War. In the late 'thirties all the free countries of the Atlantic Community suffered from fairly heavy unemployment of labour and of other economic resources. Very considerable increases in economic activity in the industries producing arms and equipment were then possible without there being any comparable decrease in the amounts produced for civilian purposes. Today, full employment is already attained in most of the countries of the Atlantic Community. Thus, in the United States in 1939 there were 9½ millions unemployed, a figure which was reduced to only 670,000 by 1944. Now there are under 2 millions unemployed. In the United Kingdom the figure of 1¾ millions unemployed in 1938 was reduced to 54,000 in 1944, whereas now we have only some 200,000 unemployed. True there are some pockets of unemployed resources in Germany, Italy, and Belgium which might be brought into employment. But, broadly speaking, in the free world now an increase in defence programmes means a reduction in civilian programmes.

But, of course, the general increase in the productivity of employed resources in the countries of the Atlantic Community will to some extent enable more to be produced for armaments without an absolute decline in consumption standards. As noted above, in the United States present plans would involve an increase from 8¾ to 17 per cent. in expenditure on defence and foreign aid as a proportion of the net national income between 1949 and 1951–52. It is, however, estimated in the report to the President by the Council of Economic Advisers

(July, 1951) that the total national product in the United States rose by about 10 per cent. between mid-1950 and mid-1951 and might rise by another 5 per cent. by mid-1952. But even this would mean that there must be some fall in private expenditure on investment and consumption between the first half of 1951 and of 1952 to make room for the still greater increase in the defence programme. But this cut in private expenditure may be mainly in private investment and in particular in the accumulation of stocks. The absolute cut-back in current standards of consumption in the United States is thus likely to be very moderate, and, owing to the prodigious recent growth in production in the United States, will still leave real consumption per head some 25 per cent. higher than at the outbreak of the Second World War.

In our own case industrial productivity has been increasing over the last three years at something like 7 per cent. per annum. It will continue to increase in 1951, but at a lower rate—perhaps by 4 per cent.—because of interruptions to production due to raw material shortages, the switch over to armaments production and so on. But, on the other hand, we do not plan anything like so large an expansion of our defence expenditure. Official estimates early in the year implied that our general level of real consumption would fall by less than 1 per cent. over-all.

This development in our own case masked one most important change. The rise in 1951 as compared with 1950 in the world price-level of the primary products which we have to import in fact imposed upon us an economic burden as important as the burden of our additional rearmament programme. But we hoped to meet some of this increased import bill without any immediate sacrifice by abandoning the surplus which we obtained last year in our balance of payments. Last year we exported some £200 millions of goods and services in excess of our imports. These surplus exports we intended to use this year to meet the increased price of our necessary imports. In fact the inflationary pressure of demand at home has been such as to cause an actual rise in real consumption at the expense of a much greater deterioration of the balance of trade than had been anticipated.

This will, of course, react adversely upon our ability to give capital assistance or outright grants to undeveloped countries which are in need of such capital assistance. This is a most important aspect of the economic effects of rearmament in the countries of the Atlantic Community. National

independence and economic development are two ideas which most move the emotions of the peoples of the economically backward areas of the world; and broadly speaking, properly played, these should be strong cards in the hands of the Atlantic Community. It is we who have given and will now really defend national independence in India, Pakistan, Ceylon and Burma. It is we and the Americans who really have the capital resources and technical know-how to promote economic development in these areas. It is a very important part of the strategy of political warfare that we should play these cards properly. We cannot afford to let the strains of rearmament ruin our plans for economic development in these areas.

Rearmament does, of course, compete with these plans. The expenditures by the United States on foreign military aid may well reduce the amount which they would otherwise have put into Point IV. The reappearance of a deficit on the United Kingdom balance of trade may well make us less willing and able to find the finance for the Colombo Plan. And yet the willingness to face a moderate cut in our standards should make it possible for us to maintain a good programme of economic development as well as our present rearmament programme. In the first place, economic development in primary producing countries may now require less external finance, since the high prices of primary products have raised their own export earnings. Secondly, it has become clear from the experience of the International Bank for Reconstruction and Development that the shortage of technically trained men and of well devised plans means that in any case the scale of feasible expenditure on capital development in such territories in the very near future is strictly limited. To maintain a reasonable development programme would require only a relatively small further burden on civilian standards in the Atlantic Community.

But how far can such a reduction be taken without danger of encouraging through domestic economic discontent and disappointment that very growth of communism which it is the object of the whole operation to resist? Perhaps there is an element of comfortable wishful thinking in the arguments of those who assert that the right way to counteract totalitarian aggression is not by spending on tanks and aeroplanes for military strength but by spending on projects for social contentment. Would the world were such that the less one spent on armaments the safer one was from attack! May it not be just as probable that the growing military strength of the

free countries would put heart into their citizens and increase their confidence in the free way of life as that some moderate cut in their immediate standard of living would drive them through discontent into the other camp?

The Sharing of the Burden

Closely associated with the problem of assessing the right scale for the total effort is the problem of ensuring that every country of the Atlantic Community makes its proper contribution to this total effort. The principle of "fair shares" in the burden is, of course, unobjectionable; but, quite apart from the problem of enforcing the principle, it is not really very easy to define precisely what is meant by a fair share of the burden.

One very obvious principle, because it is simple, would appear to be that each country should contribute in its defence budget about the same proportion of its total national income. There are, of course, serious technical problems involved in defining the national income and there are possibilities that, even when a common definition has been found, national statistical offices cannot be relied upon to provide reliable estimates of their national incomes, particularly if they are going to be used as income tax returns.

These difficulties, though real, are not perhaps insuperable. Great progress has been made recently in defining and measuring national incomes and it might not be impossible to obtain agreed definitions and estimates of defence expenditures, provided that only rough justice is sought. It may, therefore, be of interest to consider the following figures, which give a very rough idea of the defence expenditures on present plans for 1951 as percentages of net national incomes:—[1]

	%
U.S.A.	17·0
U.K.	13·4
Canada	10·0
Netherlands	9·7
France	9·3
Italy	7·0
Norway	4·9
Belgium	4·6
Denmark	2·9

[1] The figures for all countries except the United States and Canada are taken from Table 66 of the *Economic Survey of Europe in* 1950 published by the Economic Commission for Europe.

It is interesting to observe what would happen if the proportional system were adopted. The total defence expenditure expressed as a percentage of the total national incomes of these countries works out at about 15½ per cent. If this percentage is applied to all countries, then the U.S.A. would reduce its defence expenditure by some $4,000 millions. All others would have to raise theirs by different amounts; in our case by some £200 millions.

Now this principle may be fair. If so, we must not shirk the obvious implications; and it is certain that some countries of continental Europe are not pulling their weight. But in fact the full proportional principle is not in line with modern ideas about the equity of tax burdens. All civilized countries now operate on the progressive and not on the proportionate principle, namely, the principle that persons with a higher real income should contribute a larger proportion of their income in taxation. It would, on this principle, be fair that the United States, with its higher real income per head, should contribute a higher proportion of its national income to the common defence. Indeed, it is inevitable that the progressive principle should be adopted. But if it is adopted, it does, of course, greatly complicate the problem of equitable burden-sharing.

There is first of all a relatively minor, though not inconsiderable, technical complication which needs mention. If a progressive scale of contributions is adopted, it will be necessary to estimate real national incomes and not merely money national incomes. It is not fair to tax Ruritania more heavily than Sylvania merely because money income per head in Ruritania is twice as high as in Sylvania, if at the same time the cost of living in Ruritania is twice as high as in Sylvania. With a proportionate system each country will, in any case, pay the same proportion of its money national income. The introduction of the progressive principle, therefore, confronts the statisticians with the much more formidable task of considering real incomes as opposed to money incomes.

The major problem of the progressive principle, however, is not this technical one, but the straightforward political issue of how progressive the system should be. Everyone may agree that the system should be progressive, but there may remain sharp disagreement whether, when a richer country pays 17 per cent. of its income, it is fair that a somewhat poorer country should pay 15 per cent., 10 per cent., or only 5 per cent. of its income. With the progressive system this principle of redistributive fiscal policy becomes a very live international

issue and the countries of the Atlantic Community will be unable to avoid it.

Nor is it a simple matter to define defence expenditure for the purpose of assessing the defence burdens of the different countries. Is the construction of an airfield which has great military importance, but which is also of commercial value, to be regarded as legitimately included in a country's defence budget? Are subsidies paid to protect a domestic watch and clock industry so as to have a war potential for the production of fuses to be regarded as part of the country's defence budget? If one country is granting foreign aid for the economic development of an under-developed territory which is of great importance in the cold war, should any part of that expenditure be counted as part of its contribution to defence?

It may well be possible to reach some workable definition which will get round such difficulties, but there remains one problem of definition of defence expenditure which is more difficult to surmount. One country may give to its conscript forces a very bare minimum rate of pay; another country may pay its armed forces on a most lavish scale. It would obviously be unfair to allow rates of pay of any height to be included in a country's defence expenditure. It is in guns rather than in Coca Cola that a defence contribution should be assessed. And there are, of course, at the moment extreme divergences in the standards of pay of the armed forces of the various countries of the Atlantic Community; the American soldier is paid $3 a day and the Turkish soldier $1 a month. It may very well prove necessary to take the pay of the armed forces entirely out of the national defence budget for purposes of comparisons of the equity of the burden, and to have two standards. The first would relate the national defence expenditures on arms and munitions, etc., but not on the pay of the forces, to real incomes; and the second would relate the total numbers in the armed forces to the total manpower of military age in the countries concerned.

The Location of Arms Production

In the ordinary self-contained defence programme of the independent sovereign nation, the normal pattern is that the Government raises taxation from its own residents to spend on arms produced in its own factories in order to equip its own forces for the defence of its own territories. But when an association of countries comes together to plan its joint defence this pattern of what one may call autarkic defence may prove

to be very inefficient, inequitable, and uneconomic. There are three parties involved in any arms programme. Who is to pay for the arms? Who is to produce the arms? Who is to use the arms? In any national programme we should consider it ludicrous to suggest that these three parties should coincide. Because motor vehicles for the Army are made in Birmingham we do not suggest that the residents in the Midlands should pay for them; and because the armed forces which use them are stationed in Kent we do not suggest that motor vehicle production should take place in Kent. Yet in the international sphere we do start from something a little like this.

Take a purely hypothetical example. It may be that, on military grounds, a high priority should be given to the provision of more motor vehicles for the French army. It may be that the most economic capacity which is at present available to increase the production of motor vehicles is in the Italian industry. It may be that it is the Belgians who are at present bearing too low a share of the burden of the joint defence. We need, in such circumstances, a system under which the Belgians will contribute funds which the French can use for the purchase of motor vehicles from the Italians. Only with a system which allows for this sort of transaction can military efficiency, economic production, and fair shares in the burden be combined.

Such a system depends upon divorcing as much as possible the three sets of decisions. First, there must be some joint military assessment of which forces in which theatres most need which type of development. Secondly, there must be some joint economic survey of the equity of the total contributions made by each country; and if equity demands that Belgium should contribute more while military efficiency demands that it should be France's forces which are expanded, then Belgium must grant military aid to France. But, thirdly, there must be some joint survey of the most appropriate places in which particular lines of production should be expanded. This must be decided on a balanced view of both economic and military considerations. The production must be expanded where it is economic and, in the case of essential production, also where it is least likely to be interrupted in case of hostilities.

We are at the moment very far removed from any system of this kind; and the last section of this article will consider the next steps towards such a system. At this point it is useful to note two implications of any such system.

First, a system of this kind raises the problem of balances of payments and of the convertibility of currencies. In the example given above, the Belgian francs which are contributed by the Belgians must be convertible into Italian lire in order that the French can use them to purchase Italian motor vehicles. The Belgians must ultimately contribute to defence by having an excess of their exports over their imports which will allow their money contributions to be converted into foreign currencies to be used to purchase weapons of war in other markets. An efficient and equitable joint defence plan involves mutual military aid paid in untied and convertible currency to enable one country to assist a second in purchasing supplies from a third.

Second, such a system will mean that the countries in which it is decided that war production should be especially expanded will have to transfer their resources from civilian industries to war industries on a much greater scale than those countries whose money contributions to defence exceed their domestic war production, and who, to pay the balance, will generate an excess of civilian exports. The former class of countries will, therefore, have much more serious problems of readjustment of their economies back to a peace-time structure if and when the cold war dies down or a hot war has been won. Recent experience in the United Kingdom illustrates the meaning of this. As part of the arrangement for the Second World War, United Kingdom exports had been reduced to less than a third of their pre-war level. But as soon as the War was over Lend-Lease ceased and we had at once to transform our export trade. If countries are to co-operate wholeheartedly in the present planning of their economies for the most effective prosecution of the cold war, they may need some assurance that the transitional difficulties of the subsequent readjustment back to full peace will also be met with some form of mutual assistance.

The Weapons of Economic Policy

Joint economic programmes which were worked out on the principles outlined above could all conceivably be carried into effect merely by fiscal devices. The Government of each country would tax its own citizens on a scale necessary to meet its agreed contribution to the joint defence; it would pay some of this revenue over in military aid to the Government of some other country if its own defence programme were less than its fair contribution to the joint defence, or, in the opposite

circumstances, it would receive supplementary military aid from other countries; finally, in using its net funds to carry out its defence expenditure it would spend them on acquiring supplies from the producers in those countries which are agreed to be safe and economic arsenals.

But as rearmament develops beyond a certain point and certainly if the cold war were to give place to a hot war, the fiscal weapon ceases to be sufficient. Experience in the Second World War confirms this. Theoretically, that war might have been conducted by taxing people enough to cause them to go on reducing their civilian demands until sufficient resources were available for the war sector, and by allowing the price of scarce commodities—such as imports—to rise to such an extent that in a deflated but free civilian market demand was equal to supply. But, in fact, reliance could not be placed solely upon fiscal policy plus the free working of the price mechanism. The whole apparatus of direct controls was necessary: rationing and price control of essential consumption goods; allocation of shipping, factory and storage space; the direct licensing of building and machinery; the allocation of scarce materials and so on.

One essential reason for this was that the whole defence expenditure was so enormous that no conceivable level of taxation would have so reduced civilian demand as to have kept monetary inflation within tolerable bounds. Another was that, where there was a really important bottleneck, to allow the price mechanism to deal with the situation might have caused intolerable profiteering by those who happened to command the scarce resource and in any case might not have led immediately to the concentration of the resource upon its most vital uses. And we have recently once more experienced this bottleneck problem in critical shortages of some raw materials. These shortages arose mainly as a result of the great increase in the level of rearmament and of general industrial production in the United States; they were aggravated by Governmental purchases for stockpiling for defence reasons, and also, so long as prices were rising, by private speculative purchases on the part of people who expected the shortages to drive prices up still further.

If, in the fight against the inflationary tendencies of the rearmament drive, or, in order to deal with particular bottleneck problems, the countries of the Atlantic Community have to introduce direct controls and allocation schemes over a large number of economic resources, then a quite new set of economic

problems opens up for them. These problems will be of a particularly difficult character. In the Second World War the United States and the United Kingdom, if they could agree upon an allocation of the use of raw materials, could then enforce it by means of the shipping sanction. The import of further raw materials could be denied to a country which abused any allocation scheme, because the shipment was controlled; and even a country which exported the raw material knew that its imports of necessary manufactured products depended upon shipping space, which might more readily be forthcoming if it exported the raw material in adequate quantities to appropriate destinations. But now there are many more than two countries which must be associated in any scheme of allocation, and there is no shipping sanction. Yet, at the same time, there would be great temptations for any one country not to keep strictly to any agreed allocation system. Great profit could be reaped by a single set of manufacturers who used a raw material to produce exports of a particular civilian product, the markets for which were starved because the Governments of all the other manufacturing countries were by agreement effectively limiting the amount of the raw material that could be used for that purpose.

The economic problems of the rearming Atlantic Community would undoubtedly be much simplified if it were possible to deal with shortages by fiscal and monetary measures and the price mechanism rather than by direct quantitative controls. And perhaps at present there is a tendency to underestimate the amount that can be done by these means. Consider the problem of raw material shortages. A sharp increase in the price of a raw material will encourage the production of greater supplies of it or of close substitutes for it. It will cut out waste and inessential consumption of the material and will shift essential demand on to less scarce substitutes. If the rise in price is sufficiently sharp so that it leads private traders and manufacturers to expect that it has reached its peak it will cause speculative stocking to give place to speculative de-stocking.

All this is important and should not be forgotten; but in the present situation there is still more that could be done by general monetary and fiscal measures than by the market price mechanism alone.

There was a considerable inflationary price rise in the United States after the outbreak of the Korean war in June, 1950. Indeed, the general level of wholesale prices rose by no

less than 22 per cent. in the year ending February, 1951. The recent lull in this upward tendency may be deceptive. As noted on page 37, there will continue to be a large increase in American spendable incomes with no increase in the real supplies of goods available for private consumers to purchase. As Mr. Davenport and Mr. Bloch have pointed out in their article on "Guns, Butter, and Cows" in the LLOYDS BANK REVIEW for July of this year, there is a continuing danger of inflationary pressure in a United States which is attempting to sustain abnormally high levels of rearmament, personal consumption, and civilian capital investment simultaneously. Now suppose that, as these authors suggest, it were possible by a more austere tax policy and by a restriction of the total supply of money and credit and a consequential hardening of interest rates really to reduce civilian demand in the United States so that the new defence and foreign-aid programmes could be imposed upon that economy without this inflationary pressure, and without an extensive system of direct controls. Then the reduction of the inflated American civilian demand for resources would itself reduce the number of bottleneck problems for the economies of the Atlantic Community, and some at least of those which remained would be more susceptible of treatment by the ordinary processes of the market price mechanism.

This analysis applies, of course, to all the countries of the Atlantic Community. The more they are able to hold inflationary demands in check by fiscal and monetary measures, the less will be the bottleneck problems with which they will be confronted. This is true in particular of the United States, simply because the American economy now dominates the free world. The United States' planned expenditure on defence is greater than the total United Kingdom national income; her national income is three times as great as the combined national incomes of the United Kingdom, Canada, the Netherlands, France, Italy, Norway, Belgium and Denmark put together. Thus a 1 per cent. release of resources by the American economy would mean a 3 per cent. increase in resources for all these other countries of the Atlantic Community. An uncontrolled inflationary American demand for raw materials could seriously threaten supplies for these other countries; and nothing could constitute a more dangerous defeat in political warfare than industrial stagnation and unemployment in these countries due to what might be represented as American selfishness. The control of inflation in

the United States and the consequent moderation of some of their demands for materials might well make all the difference to the material situation and is thus perhaps the biggest single economic issue which immediately concerns the Atlantic Community. It is to be hoped that general anti-inflationary measures would greatly reduce the need for international allocation schemes; but in the use of some materials it may well not do so, and in such cases the countries of the Atlantic Community must be prepared to add to their agenda for joint economic planning, the necessary allocation arrangements.

The International Institutional Problem

At this point it may be useful to recapitulate the various tasks for which joint action is required.

First, the countries of the Atlantic Community must have programmes for the actual military forces which each country should provide in each theatre.

Second, they must have a programme whereby each country will make a sufficient contribution to cover its fair share of this total defence programme.

Third, there must be joint decisions about the places in which particular pieces of equipment should be produced.

Fourth, in the case of bottleneck resources for which the total demand cannot be reduced to the total supply by means of appropriate monetary, fiscal, and price policies they must be prepared to face the problem of some agreed quantitative allocation of the resources.

What institutional arrangements are needed to carry out these tasks?

There are those who say that only a complete federation of the Atlantic countries can serve to deal with these problems. A federal government would presumably deal with the first three of these major economic problems by the institution of a federal defence minister to draw up effective military plans, by the introduction of some federal scheme of conscription for military service, by the imposition of a federal tax system to raise the funds in an equitable manner, and by the expenditure of these funds through a federal budget to obtain supplies from the cheapest and safest sources. All this, of course, would involve a tremendous upheaval of present national Governments and is a great deal easier said than done. These difficulties are obvious and well-understood; but it is equally important to realize that a federal government is in some ways not well devised for war-making.

Normally, federal unionists emphasize the attractiveness of a system in which powers are divided, a very limited range of powers being handed over to the federal government and the member states retaining a large range of powers with which they can develop their own local experiments in the way of living. But the prosecution of a modern total war requires an integrated defence plan which, in the economic sphere, rests upon price controls, labour controls, rationing, schemes for the allocation of domestic economic resources, and so on; and, while everyone hopes that the institution of an Atlantic Union will deter potential aggressors from making war, it will do so only if it is itself known to be an effective organization for conducting a defensive war. Now either the central government is given all the necessary economic powers, in which case there is not much left of the federal idea, or else there is a risk of stultifying its war effort by a division of powers between the federal and state governments. This division of powers might be quite as stultifying as is the present division of effort between a number of sovereign independent countries. With the federal system there would be need for some special organization to negotiate agreements between the federal government which had sovereign powers over defence plans and the state governments which had sovereign powers over the domestic economic controls necessary to give effect to the defence plans. There is no reason in the nature of things to believe that this organization would be more successful and more effective than a North Atlantic Treaty Organization devised to negotiate agreements between a number of sovereign States, each of which has completely integrated powers over defence and economic policy within its own territory.

In any case we must probably rule out the full federal solution as being impracticable in the immediate future. The next possibility to consider is some confederation of the Atlantic countries working through some council of ministers with appropriate subordinate organizations. The purpose of this organization would be to draw up (*a*) a jointly-agreed programme for the defence expenditure of the constituent members, (*b*) a jointly-agreed programme for the contributions which each member should make to the common defence, any difference between (*a*) and (*b*) being filled by the receipt or payment of military aid, (*c*) a jointly-agreed programme of where it was most desirable on military and economic grounds that certain lines of production should be developed, and (*d*) a jointly-agreed programme about the fiscal, monetary, and

other economic measures which should be taken by the individual countries to carry out these programmes in a way which caused the minimum of disturbance to each other.

Now this is probably the sort of system which we should strive to achieve in as near a future as possible. It must be realized, however, that the countries of the Atlantic Community are still a long way away from anything really satisfactory on these lines. One cannot, of course, expect the plans to mature in the tidy way in which they are enumerated above. The countries will not in fact get together, formulate complete and well-integrated plans, and then go home and carry them out. What they do now, and what they are likely to continue to do for some time in the future, is for each country to formulate its own national defence budget, to decide for itself where it will obtain its supplies, and to decide for itself what fiscal and monetary policies and what economic controls it will employ to realize its plans. Attempts should, however, be made by common agreement to make marginal adjustments to these national plans on the following lines. First, the countries must jointly consider whether the total effort is really enough or whether each ought not to do rather more. Second, they must consider whether one particular country ought not to contribute a larger share of the total and some other country rather less. Third, they must consider whether the amount of effort put into one theatre may not need to be increased at the expense of that going into another theatre, in which case the actual expenditure in one country's defence budget may need to be decreased at the expense of a rise in the defence expenditure of another country. Such adjustments would, of course, require adjustments of military aid paid between the countries. Fourth, they would have to consider whether marginal adjustments might not be made in national production programmes so that rather more of some particular type of equipment was produced in and purchased from one source rather than from another.

Much progress remains to be made even in this the least ambitious type of scheme for joint consultation on economic plans and programmes. But the North Atlantic Treaty Organization is the one promising organization through which this could be done and it is greatly to be hoped that it will develop along these lines.

The present NATO is an organization for dealing only with problems of the defence of the North Atlantic area. But if it is to be useful in the ways indicated above, it must

concern itself with the economic relations of the Atlantic Community with the whole of the rest of the world. For example, in considering whether a country is pulling its weight or not in defence against totalitarian aggression, attention must be paid to its total contribution, in the Far East as well as in Europe, and this total effort must be measured against its total resources. One cannot consider whether a particular country ought to make a larger contribution to the defence of Western Europe without taking into account whether or not it is contributing to the defence of the Far East or of the Middle East.

The NATO has recently been reorganized. From the economic point of view the arrangements are now as follows. At the top there is a single Council of Ministers, which may consist of Foreign Ministers, Defence Ministers, or Finance Ministers, according to the subjects under discussion. Under this Council of Ministers is the Council of Deputies, which is in more or less continuous session and which consists of high officials deputizing for the Council of Ministers. Responsible to the Council of Deputies there is a Production Board and, more recently, a Financial and Economic Board.

The Production Board has already been working for some time. It has attempted such tasks as making surveys of the production capacity available in particular countries for particular jobs. It can thereby hope to persuade particular countries to produce more of particular types of equipment and other countries to purchase more of their supplies from these sources. Its success in this field is, however, likely to be limited until more progress is made with the other economic problems. For example, there may be capacity in Italy to produce more trucks suitable for military purposes; but until the Italian Government knows who will ultimately pay for the trucks it may be unwilling to promote the desired expansion of their production.

The Financial and Economic Board has grown out of a previously existing committee of twelve economic experts in Paris, representing those members of the Organization for European Economic Co-operation which are also members of NATO. This committee has been engaged in collecting from all NATO countries the basic information about defence programmes, national incomes and production, manpower, balances of payment, and so on, on the basis of which could be made a rational comparison of defence efforts and of the effect on national economies of national rearmament

programmes. It remains now for the Board, on the basis of the information so collected, to initiate those agreements about marginal adjustments of economic programmes to which reference has been made above.

Finally, in Washington there is now the separate International Materials Conference established by the United States, the United Kingdom and France, and consisting of separate committees of different countries to consider the problems of particular raw materials. This organization has been set up separately because a group which contains all the main producers and consumers in the free world of a particular raw material may need a membership wider than that of the NATO. Nevertheless, the problem remains of relating raw material policies to the rest of the economic problems which the NATO should consider. It would be difficult for the Financial and Economic Board of NATO really to cover the problems mentioned above, if it were not able at least to discuss the line which its members were going to take on raw material problems.

Such, in brief, is the existing organization. It has not yet achieved much in the economic field. But there seems to be no organizational reason why it should not now successfully tackle its essential economic tasks—provided that the Governments and the peoples of the Atlantic Community have the will to make things work that way.

J. E. Meade.

London School of Economics.
September, 1951.

Statistics: Explanatory Notes

A—Personal Consumption.—In the first quarter of 1951 it is estimated that total consumption in real terms, allowing for the rise in prices, was some 5 per cent. greater than in the corresponding quarter of 1950. Increases were recorded for all of the individual groups covered by the charts on page 55, with the exception of food, where the level was no higher than at the beginning of 1950. The consumption of household goods, in particular, was 15 per cent. greater than in the first quarter of 1950.

The last chart shows the trend for the *value* of retail sales. On this basis, retail sales in the first half of this year were 13 per cent. above the level for the first six months of 1950.

B, C—Overseas Trade.—The dominant feature of our external trade this year has been the considerable increase in the excess of the value of imports over that of exports (first chart, page 56). In the period January to August the import surplus amounted to £808 millions, compared with £270 millions in the same months of 1950. The main cause of this deterioration, up to the middle of the year, was the sharp rise in the prices we had to pay—by June, import prices were 43 per cent. higher than the average for 1950. Since then, however, there has been a modest decline, for the first time in two years.

Details for some selected imports and exports are given in the charts in the middle of page 56. Imports of meat in the first six months of 1951 were little more than a third of those in the comparable period of 1950. Since June, however, the quantity has picked up again, with the arrival of supplies from the Argentine. Iron and steel scrap imports in the first half of the year were only about a quarter of the figure for the first half of 1950, largely due to the decline in German deliveries. Imports of softwood, in contrast, have been well above last year's level. As regards exports, there has been a severe reduction in our sales of coal abroad. Exports for the first eight months of 1951 were less than half those for the same months of last year. Car sales have also fallen—in the first half of the year we exported 154,000 new cars, against 175,000 in the first half of 1950.

The long-term trend in the relative importance of some leading exports is shown in the charts on page 57. One of the most significant features has been the comparative decline shown by coal and cotton yarns and manufactures—two of our traditional exports. In 1913, these two groups together accounted for over a third of the total value of exports, but in 1950 they represented less than 10 per cent. The vehicles group, in contrast, has risen continuously in importance and last year amounted to nearly a fifth of the total.

D—Fuel and Power.—In 1950, load shedding of electricity, by voltage reduction or disconnection of supply, was necessary on 210 occasions, compared with 95 times in 1949. This year, during the first three months alone, it was necessary on 89 occasions (first chart, page 58). For the whole of 1951, electricity sent out will probably be nearly 150 per cent. more than in 1938. Coal consumption, on the basis of the first six months of the year, may be about 8 million tons greater than in 1950. Coal stocks in the middle of September were 14·9 million tons, 867,000 tons above the level at the same date in 1950.

E—Manpower.—In July, unemployed workers numbered only 210,000, the lowest figure yet reached since the end of the War. For Great Britain alone 186,000 people were unemployed, representing less than 1 per cent. of the total number of workers. On a regional basis, however, unemployment varied from 2·2 per cent. in Wales to a mere 0·3 per cent. in the Midlands. At the same time as unemployment has fallen, the number of jobs vacant has increased—between January and July this year the number of vacancies notified to employment exchanges rose by 155,000.

The last chart on page 59 shows the age and sex distribution of employment in May, 1950. The low number of men aged 18 and 19 is due to conscription. For both sexes, the figures for ages 28–30 reflect the high birth-rate after the First

World War, while the relatively fewer workers in their early thirties is due mainly to the low birth-rate during the latter part of that War.

F—Middle East Oil.—The Middle East, since the War, has accounted for a growing proportion of world output, largely due to the considerable expansion of production in Saudi Arabia. Iran has little more than maintained her share of the world market (see page 60). Several Middle Eastern governments depend on oil royalties to balance their budgets; in the Arabian peninsula, indeed, oil provides more than half of the government revenues. The last charts on page 60 give details of the oil revenues received by Iran. It will be seen that in 1949 the foreign exchange equivalent of the royalties and other payments received by the Iranian government, together with that of other oil company local expenditures, was sufficient to cover half of the cost of Iran's imports.

G—Germany, Recent Trends.—The charts on page 61 illustrate some of the trends discussed by Professor Cairncross in his article earlier in this issue. Industrial production rose rapidly during 1950 and is now well above the pre-war level. Exports have also increased and, together with the sharp cut in imports in the spring of this year, Germany was able to achieve an export surplus in April for the first time since the War. Coal production is still somewhat less than in 1938 but the output of lignite is slightly above the pre-war figure. Unemployment remains relatively high and in June represented 8 per cent. of total wage and salary earners.

H—U.S.A., Recent Trends.—The rise in prices has recently levelled off, after the sharp upsurge that marked the second half of 1950. Wholesale prices reached a peak in March of nearly 20 per cent. above the 1949 level but have subsequently fallen slightly. Exports have risen steeply since the beginning of the year and, with only a modest increase in imports, the export surplus in trade with the rest of the world expanded to $1,350 millions in the first half of 1951 from only $370 millions in the last half of 1950. There has been a noticeable contraction in both retail sales and consumer credit since the buying spree of the summer and autumn of last year, the decline in the latter being partly due to tighter restrictions on new credit purchases. Manufacturers also increased their stocks at a rapid rate following the Korean outbreak—in the year to June, 1951, inventories rose by nearly $10,000 millions.

I—Raw Materials.—The dominant position of the U.S.A. in the world consumption of some important raw materials, and the extent to which she is dependent on imported supplies, is brought out by the charts on page 63. America produced about 39 per cent. of the world's copper output in 1950, for example, but accounted for over half of world consumption. U.S. consumption of synthetic rubber has been increasing—in 1950 it represented 43 per cent. of total U.S. consumption—and in the first half of 1951 was, in fact, running well above that for natural rubber.

J—Tourist Industry.—More than 600,000 tourists visited Britain in 1950 and this year it is expected the number may increase to 700,000. Expenditure by these visitors, including fares, totalled £84 millions—equivalent to more than half the value of all our cotton exports. American tourists, moreover, brought in more dollars than any individual merchandise export to the U.S.A. The tourist industry is also a significant dollar-earner for Europe as a whole. In 1950, for example, dollars received from American tourists in Europe were equivalent to 28 per cent. of the value of European merchandise exports to the U.S.A.

K—British Film Industry.—Total admissions to cinemas in Great Britain in 1950 numbered 1,396 millions, or an average of 34 attendances for every member of the population over nine years old. Of the £105 millions spent by the public on cinema entertainment in 1950, £37 millions, or over a third, was taken by entertainment tax. Of the rest, a certain proportion of the exhibitors' share (as shown in the diagram on page 65) went, finally, to the producing side of the industry. Employment on first feature films has shown some improvement this year, although in June it was still well below the level of mid-1949. From the last charts on page 65 it will be seen that the majority of films shown in British cinemas continue

to be foreign—of 569 "long" films, of over 3,000 feet, registered in 1950–51, only 125 were produced in this country.

L—Bond Yields.—As will be seen from the chart on page 66, since 1946 the general trend in the yield on Consols has been rising, approaching the levels ruling in the early 'thirties. In the U.S.A. there has been relatively little change, on balance, since 1942 but following the removal of the "peg" from the Government bond market in March this year yields have tended to rise. In Belgium, yields have fluctuated around a 4½ per cent. level since the end of the 'twenties—the sharp rise in 1926 to over 7 per cent. was due to the currency stabilization crisis following the First World War.

Books and Publications

LESSONS OF THE BRITISH WAR ECONOMY

Edited by D. N. Chester

(Cambridge University Press. Price 22s. 6d.)

This study, published under the auspices of *The National Institute of Economic and Social Research*, should prove a most valuable companion to the official history of war-time administration. The need for the services of economists, statisticians and other specialists in dealing with the many new and often novel tasks thrust upon the administrative machine was felt from the outset of the War, and it grew as the control of the economy proceeded. The essays collected in this volume are an outcome of this improvization of an expert administrative staff. The contributors, who write "as frankly as the Official Secrets Act and reasonable discretion would allow," took part in planning and carrying out the tasks they describe; and the conclusions they draw from their experience will be of special interest to the student of public administration. In addition to papers, by Mr. Chester and Professor E. A. G. Robinson, on the problems of the central direction of economic policy, and on the development of national income estimates by Mr. Richard Stone, a large part of detailed war-time activities is covered. There are, however, some obvious gaps—Treasury policy, labour controls, shipping and exchange controls—which it is a pity could not have been covered. But as Mr. Chester points out in a foreword, it was never the intention to produce a volume dealing with all aspects of the war-time economy.

THE CHARTERED INSTITUTE OF SECRETARIES 1891-1951

(Published by the Council of the Institute.)

The Chartered Institute of Secretaries this year celebrates its Diamond Jubilee. To mark the occasion, the Council of the Institute have published "this domestic history" of the growth and fine record of public service of the Institute since its foundation in 1891.

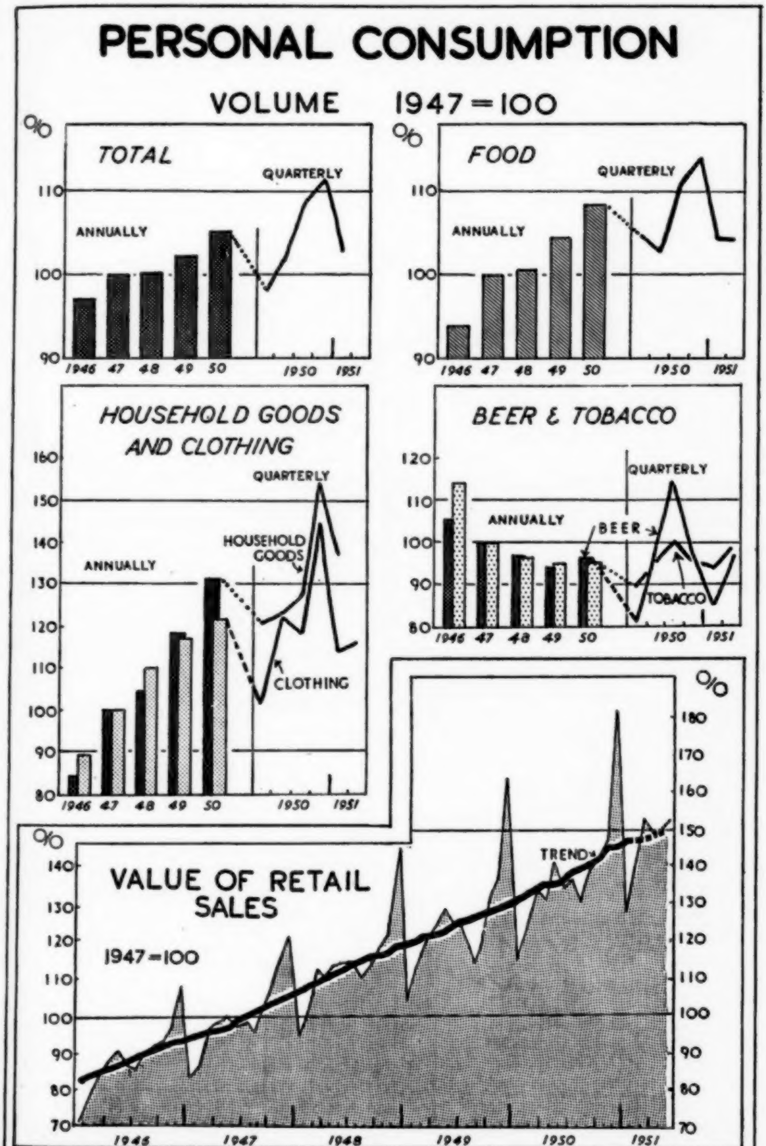
STATISTICAL YEAR BOOK FOR 1950

(The British Iron and Steel Federation. Price 7s. 6d.)

This first volume provides a detailed statistical review, in over a hundred different tables, of all aspects of the U.K. iron and steel industry. Besides figures on iron and steel production, finished steel deliveries and the use of raw materials, the tables give details regarding imports, exports, prices, stocks and employment in the industry, conveniently grouped according to subject. The second volume will deal with overseas countries.

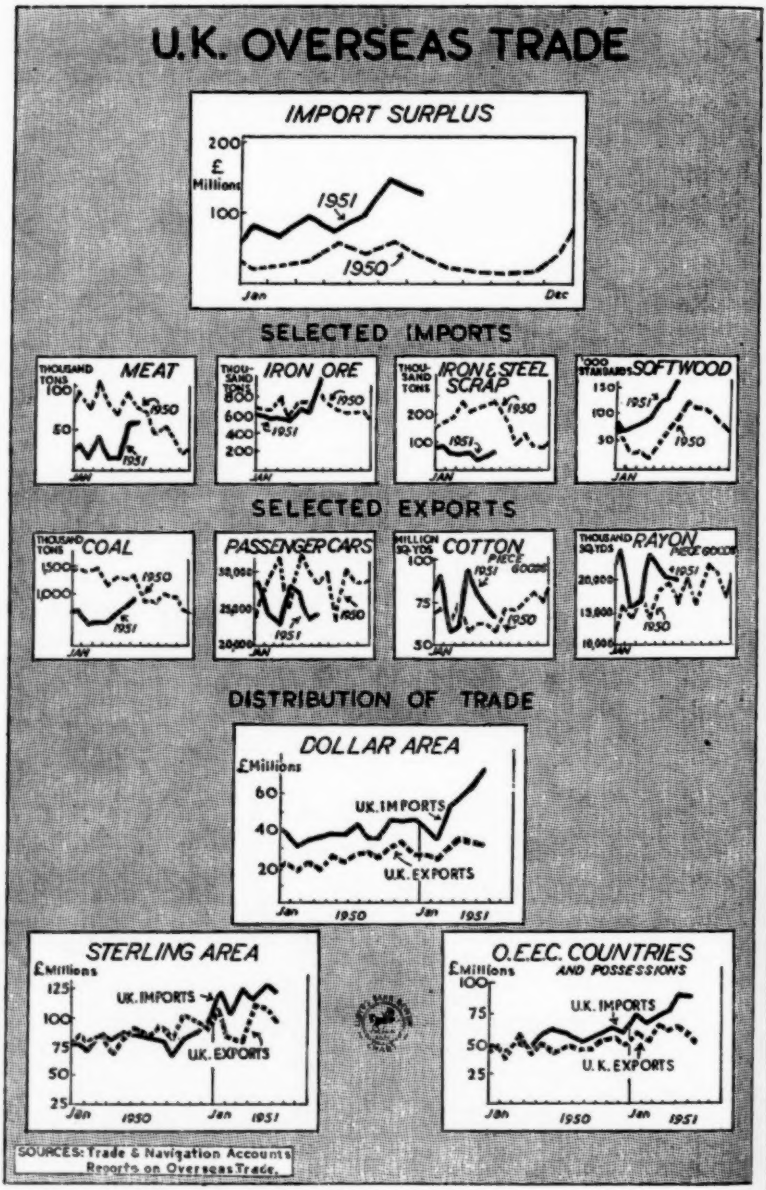
J.R.W.

A

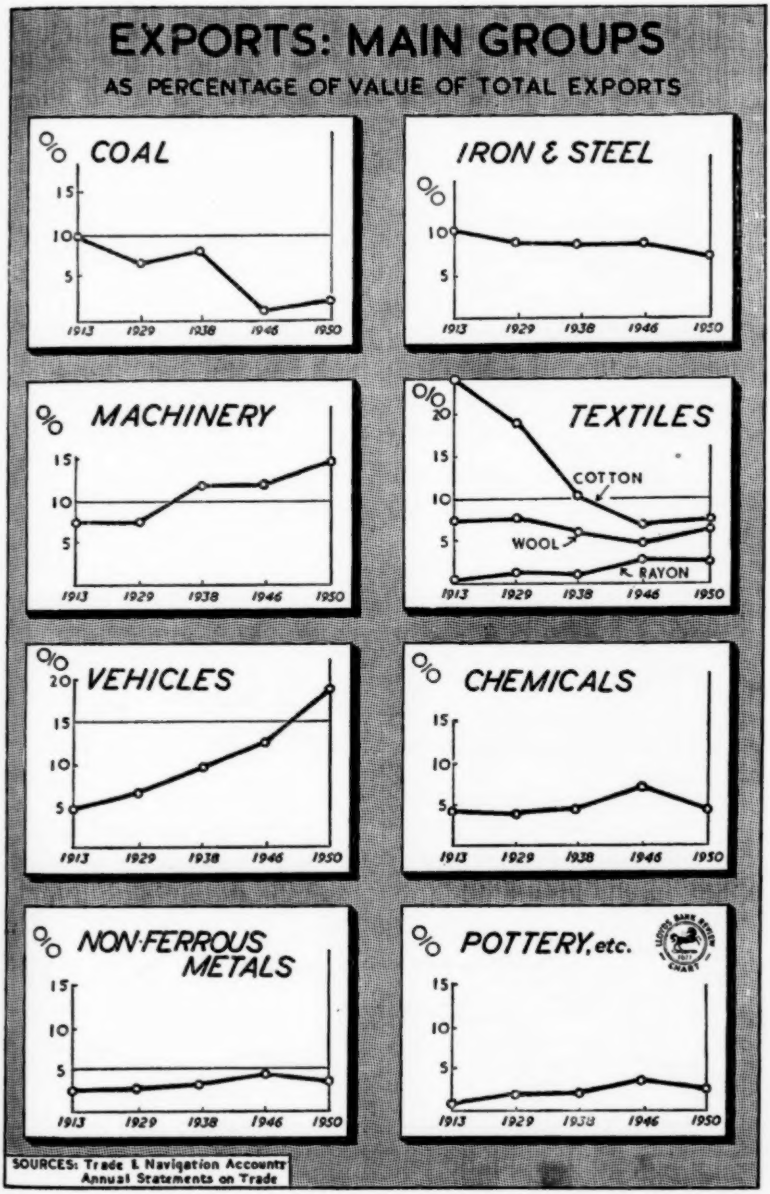


SOURCES: National Income White Paper 1951
Monthly Digest of Statistics

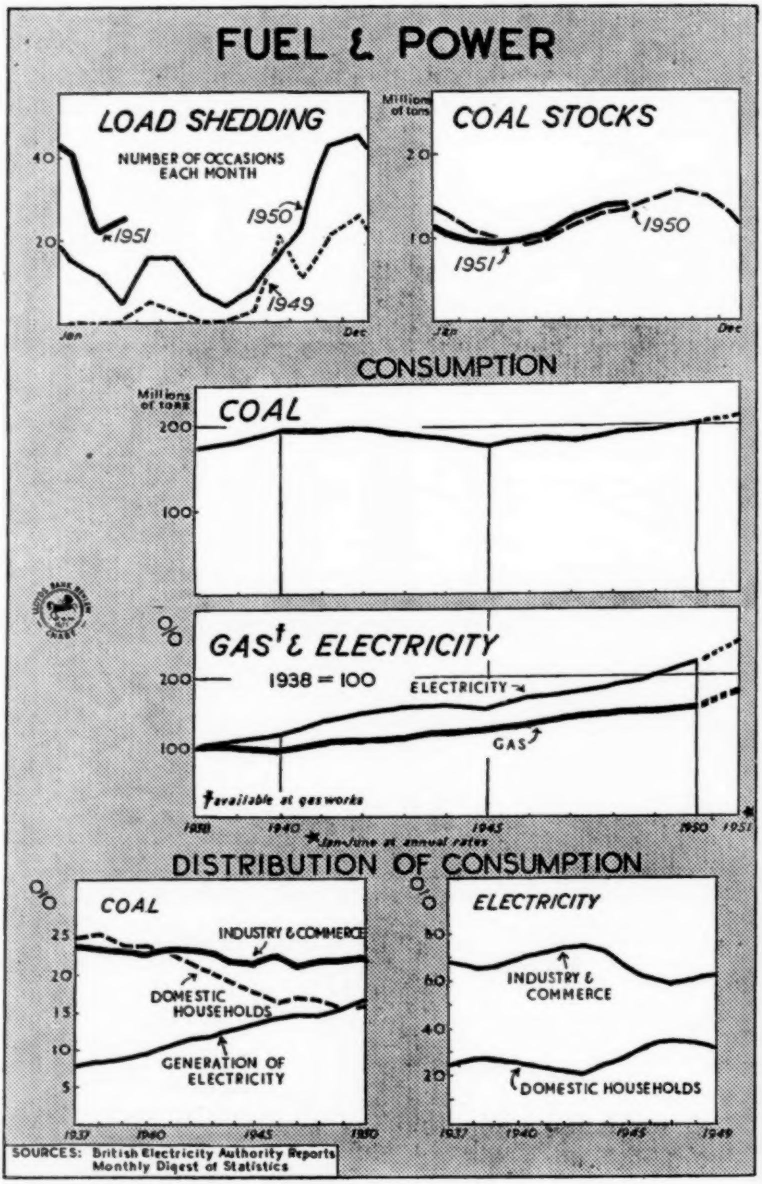
B


U.K. OVERSEAS TRADE
IMPORT SURPLUS
£ Millions
200
100
1951
1950
Jan
Dec
SELECTED IMPORTS
MEAT
THOUSAND TONS
100
50
1950
1951
JAN
IRON ORE
THOUSAND TONS
800
600
400
200
1950
1951
JAN
IRON & STEEL SCRAP
THOUSAND TONS
200
100
1950
1951
JAN
SOFTWOOD
'000 STANDARDS
150
100
50
1951
1950
JAN
SELECTED EXPORTS
COAL
THOUSAND TONS
1,500
1,000
1950
1951
JAN
PASSENGER CARS
30,000
25,000
20,000
1950
1951
JAN
COTTON PIECE GOODS
MILLION SQ. YDS
100
75
50
1951
1950
JAN
RAYON PIECE GOODS
THOUSAND SQ. YDS
20,000
15,000
10,000
1951
1950
JAN
DISTRIBUTION OF TRADE
DOLLAR AREA
£ Millions
60
40
20
U.K. IMPORTS
U.K. EXPORTS
Jan
1950
Jan
1951
STERLING AREA
£ Millions
125
100
75
50
25
U.K. IMPORTS
U.K. EXPORTS
Jan
1950
Jan
1951
O.E.E.C. COUNTRIES AND POSSESSIONS
£ Millions
100
75
50
25
U.K. IMPORTS
U.K. EXPORTS
Jan
1950
Jan
1951
SOURCES: Trade & Navigation Accounts
Reports on Overseas Trade.

C


EXPORTS: MAIN GROUPS
AS PERCENTAGE OF VALUE OF TOTAL EXPORTS
% COAL
% IRON & STEEL
% MACHINERY
% TEXTILES
COTTON
WOOL
RAYON
% VEHICLES
% CHEMICALS
% NON-FERROUS METALS
% POTTERY, etc.
LLOYDS BANK REVIEW CHART
1913
1929
1938
1946
1950
SOURCES: Trade & Navigation Accounts
Annual Statements on Trade

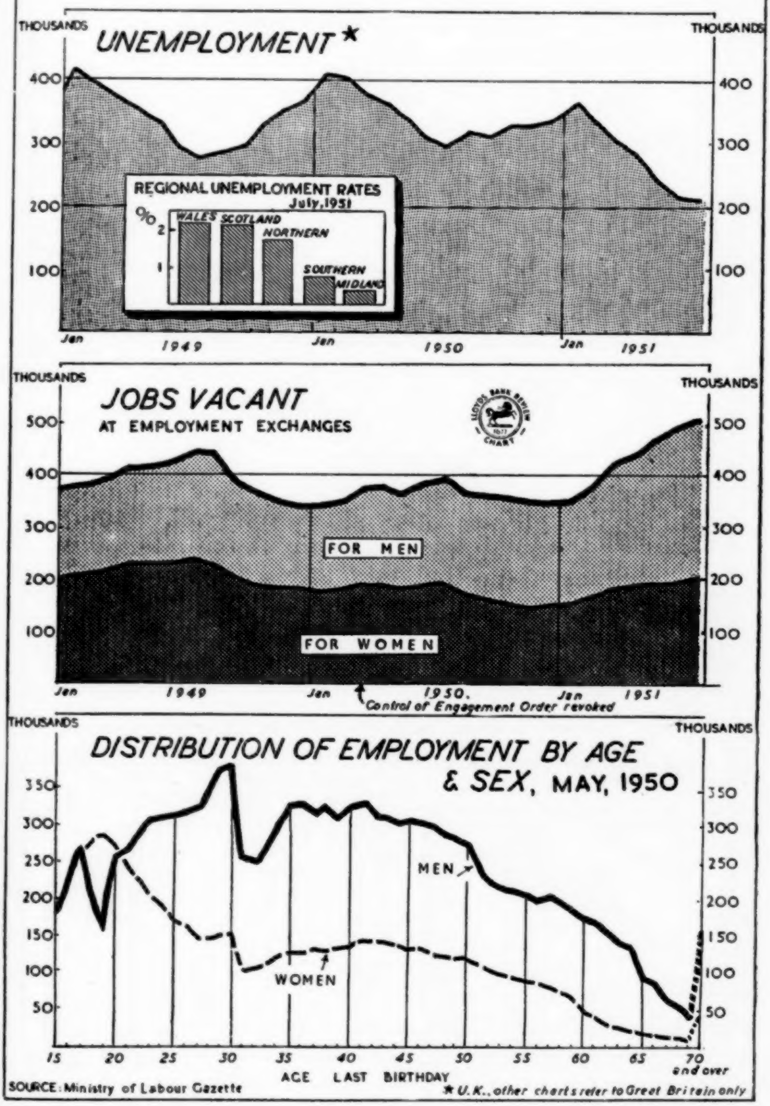
D



SOURCES: British Electricity Authority Reports
Monthly Digest of Statistics

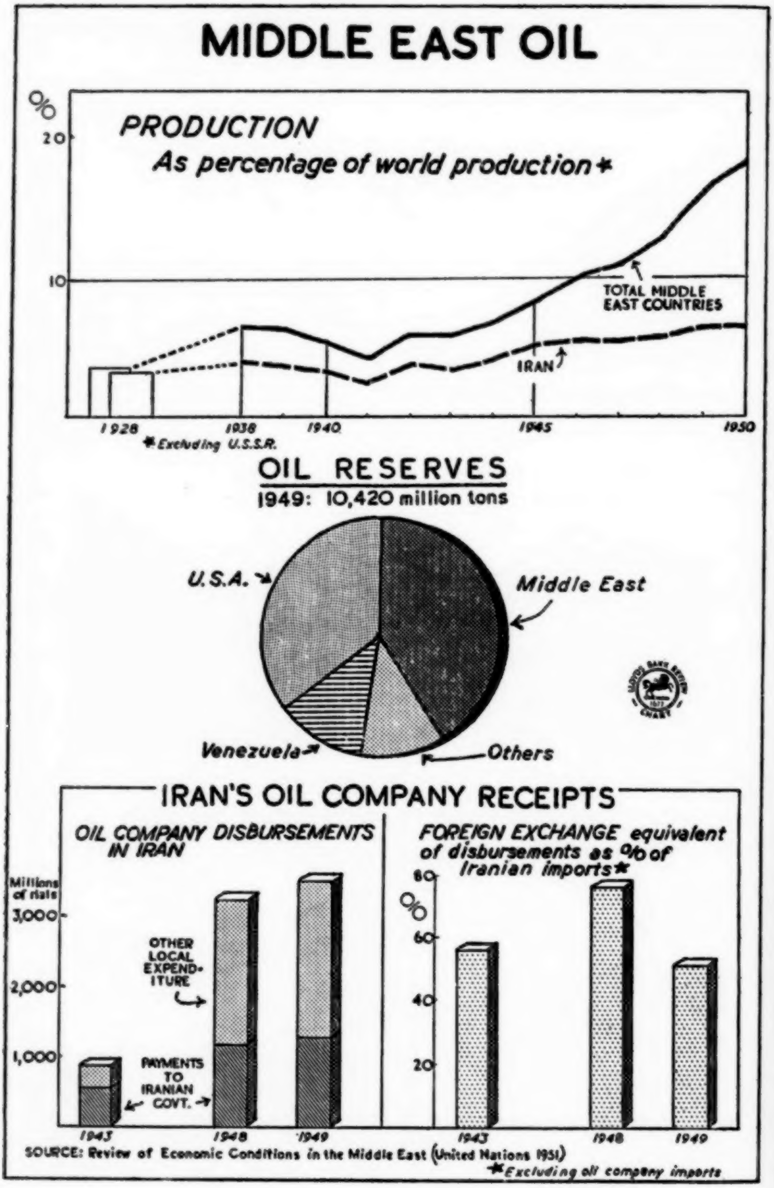
E

MANPOWER



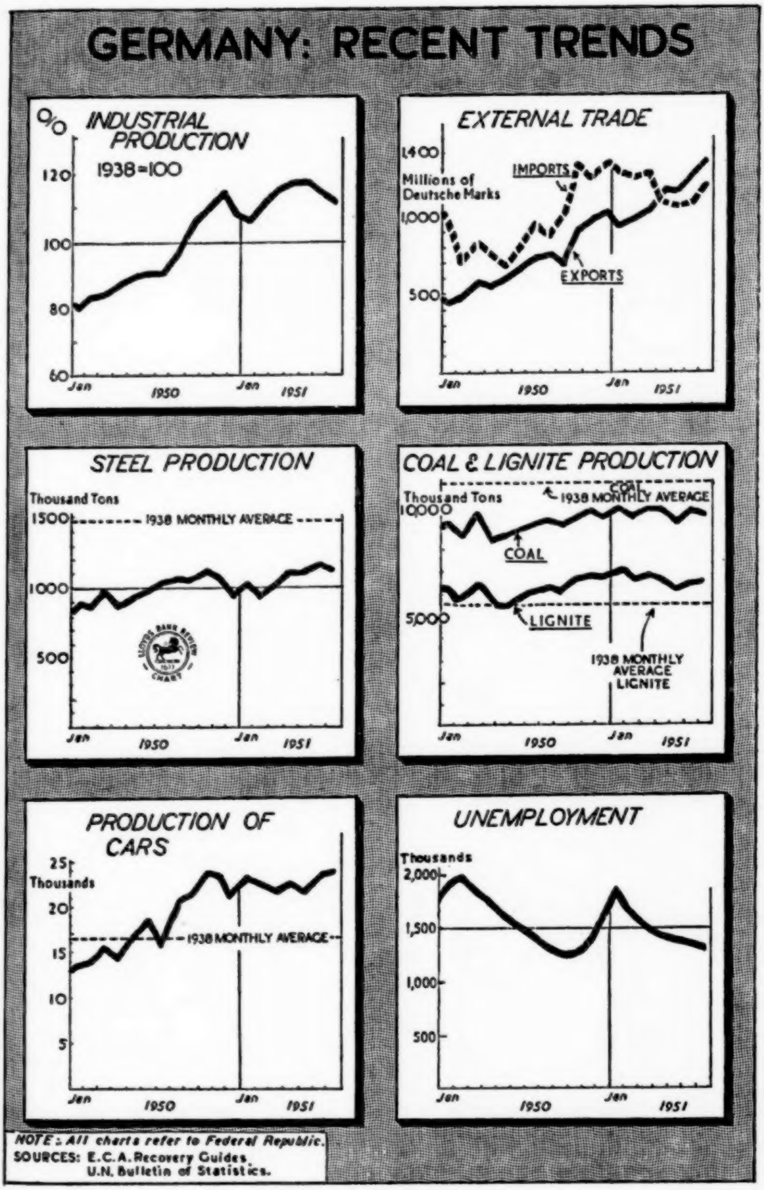
UNEMPLOYMENT *
THOUSANDS
400
300
200
100
REGIONAL UNEMPLOYMENT RATES July, 1951
%
2
1
WALES
SCOTLAND
NORTHERN
SOUTHERN
MIDLAND
Jan
1949
Jan
1950
Jan
1951
JOBS VACANT
AT EMPLOYMENT EXCHANGES
THOUSANDS
500
400
300
200
100
FOR MEN
FOR WOMEN
Jan
1949
Jan
1950.
Control of Engagement Order revoked
Jan
1951
DISTRIBUTION OF EMPLOYMENT BY AGE & SEX, MAY, 1950
THOUSANDS
350
300
250
200
150
100
50
MEN
WOMEN
15
20
25
30
35
40
45
50
55
60
65
70 and over
AGE LAST BIRTHDAY
SOURCE: Ministry of Labour Gazette
* U.K., other charts refer to Great Britain only

F

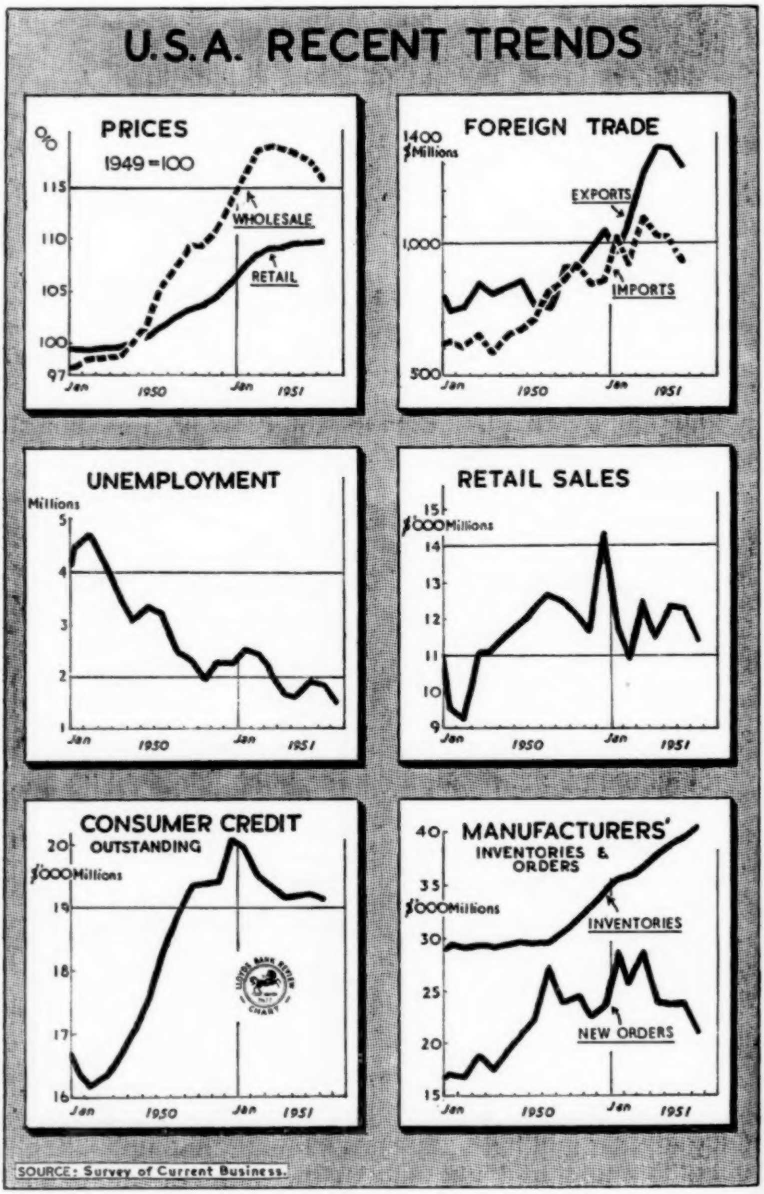


MIDDLE EAST OIL
PRODUCTION
As percentage of world production *
%
20
10
TOTAL MIDDLE EAST COUNTRIES
IRAN
1928
1938
1940
1945
1950
* Excluding U.S.S.R.
OIL RESERVES
1949: 10,420 million tons
U.S.A.
Middle East
Venezuela
Others
IRAN'S OIL COMPANY RECEIPTS
OIL COMPANY DISBURSEMENTS IN IRAN
Millions of rials
3,000
2,000
1,000
OTHER LOCAL EXPENDITURE
PAYMENTS TO IRANIAN GOVT.
1943
1948
1949
FOREIGN EXCHANGE equivalent of disbursements as % of Iranian imports*
%
80
60
40
20
1943
1948
1949
SOURCE: Review of Economic Conditions in the Middle East (United Nations 1951)
*Excluding oil company imports

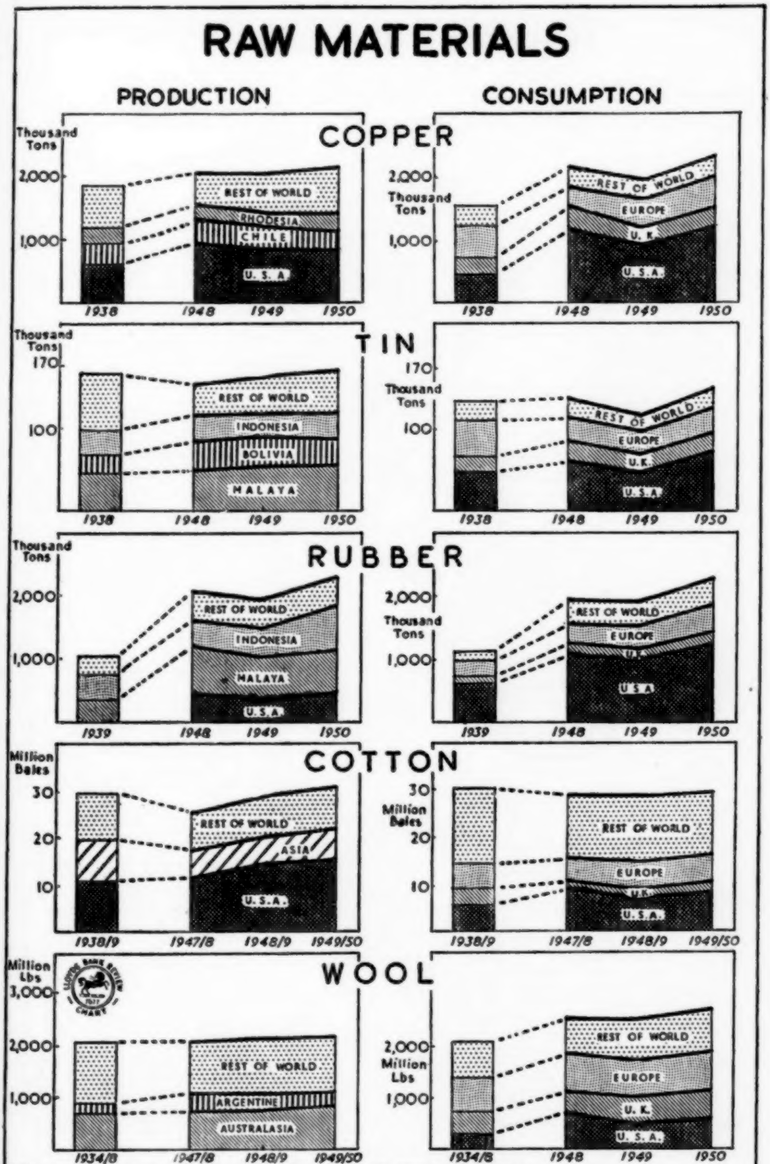
G


GERMANY: RECENT TRENDS
INDUSTRIAL PRODUCTION
%
1938=100
120
100
80
60
Jan
1950
Jan
1951
EXTERNAL TRADE
1,400
Millions of Deutsche Marks
1,000
500
IMPORTS
EXPORTS
Jan
1950
Jan
1951
STEEL PRODUCTION
Thousand Tons
1500
1938 MONTHLY AVERAGE
1000
500
Jan
1950
Jan
1951
COAL & LIGNITE PRODUCTION
Thousand Tons
10,000
COAL
1938 MONTHLY AVERAGE
COAL
5,000
LIGNITE
1938 MONTHLY AVERAGE LIGNITE
Jan
1950
Jan
1951
PRODUCTION OF CARS
25
Thousands
20
15
10
5
1938 MONTHLY AVERAGE
Jan
1950
Jan
1951
UNEMPLOYMENT
Thousands
2,000
1,500
1,000
500
Jan
1950
Jan
1951
NOTE: All charts refer to Federal Republic.
SOURCES: E.C.A. Recovery Guides
U.N. Bulletin of Statistics.

H


U.S.A. RECENT TRENDS
PRICES
1949=100
%
115
110
105
100
97
WHOLESALE
RETAIL
Jan
1950
Jan
1951
FOREIGN TRADE
1400
$Millions
1,000
500
EXPORTS
IMPORTS
UNEMPLOYMENT
Millions
5
4
3
2
1
RETAIL SALES
15
$000 Millions
14
13
12
11
10
9
CONSUMER CREDIT
OUTSTANDING
20
$000 Millions
19
18
17
16
MANUFACTURERS'
INVENTORIES & ORDERS
40
35
$000 Millions
30
25
20
15
INVENTORIES
NEW ORDERS
SOURCE: Survey of Current Business.

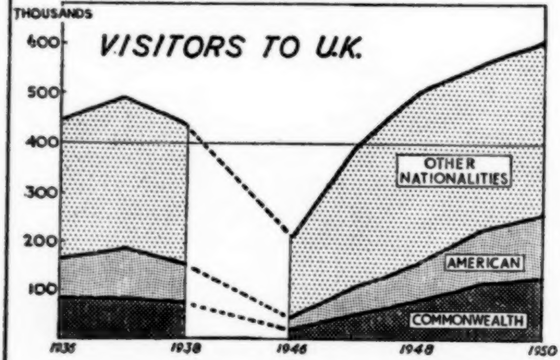
I



SOURCES: Commonwealth Economic Committee, Metal Information Bureau, etc.

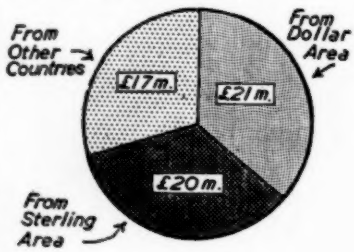
J

TOURIST INDUSTRY

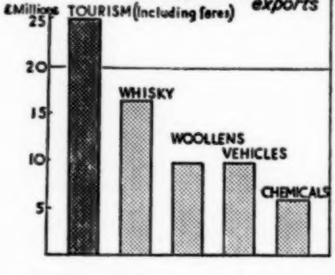


U.K. TOURIST RECEIPTS, 1950

DISTRIBUTION BY AREA

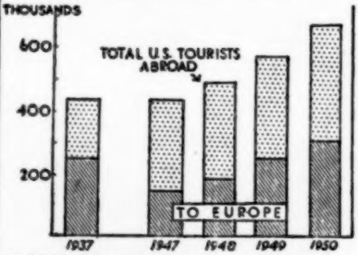


FROM U.S.A.-As compared with proceeds of leading merchandise exports

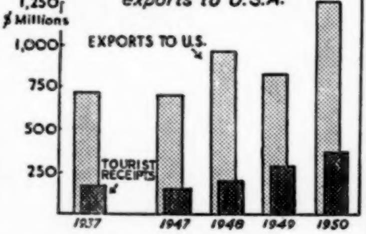


U.S. TOURISTS TO EUROPE

NUMBER OF TOURISTS



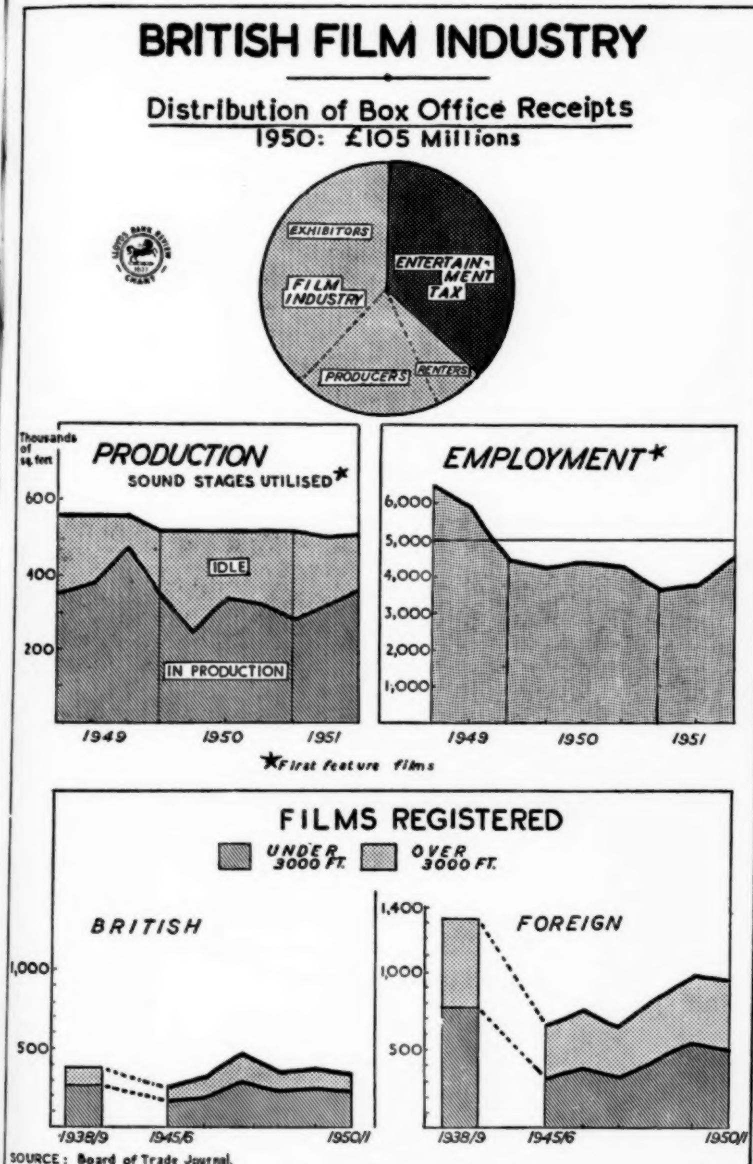
RECEIPTS FROM U.S. TOURISTS IN EUROPE compared with exports to U.S.A.*



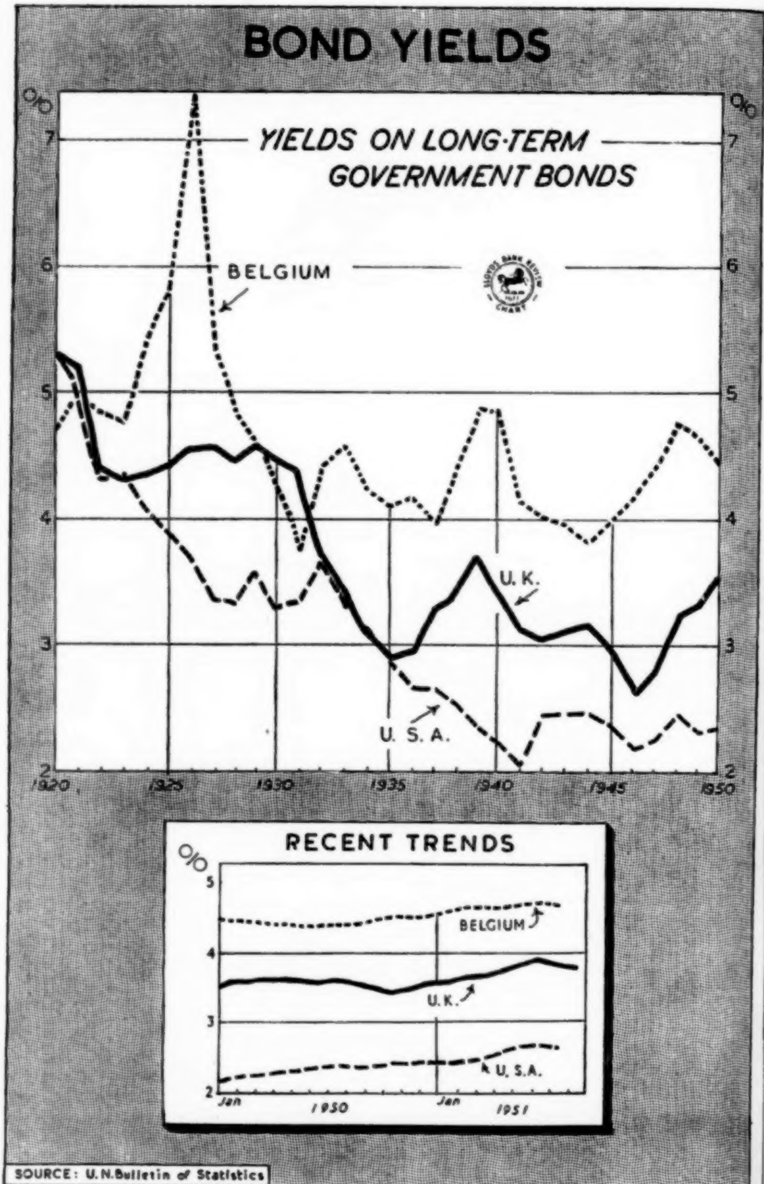
SOURCES: British Travel & Holidays Association
Survey of Current Business

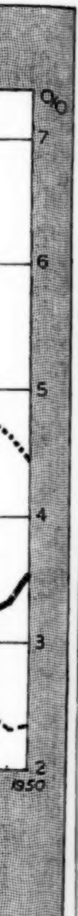
*Including fare payments

K


BRITISH FILM INDUSTRY
Distribution of Box Office Receipts
1950: £105 Millions
EXHIBITORS
ENTERTAIN-MENT TAX
FILM INDUSTRY
PRODUCERS
RENTERS
Thousands of sq. feet
PRODUCTION
SOUND STAGES UTILISED*
600
400
200
IDLE
IN PRODUCTION
1949
1950
1951
EMPLOYMENT*
6,000
5,000
4,000
3,000
2,000
1,000
1949
1950
1951
*First feature films
FILMS REGISTERED
UNDER 3000 FT.
OVER 3000 FT.
BRITISH
1,000
500
1938/9
1945/6
1950/1
FOREIGN
1,400
1,000
500
1938/9
1945/6
1950/1
SOURCE: Board of Trade Journal.

L


BOND YIELDS
YIELDS ON LONG-TERM GOVERNMENT BONDS
%
7
6
5
4
3
2
BELGIUM
U. K.
U. S. A.
1920
1925
1930
1935
1940
1945
1950
RECENT TRENDS
%
5
4
3
2
BELGIUM
U.K.
U. S.A.
Jan
1950
Jan
1951
SOURCE: U.N.Bulletin of Statistics


%
7
6
5
4
3
2
1950